# THE Freeman

IDEAS ON LIBERTY

AUGUST 1958


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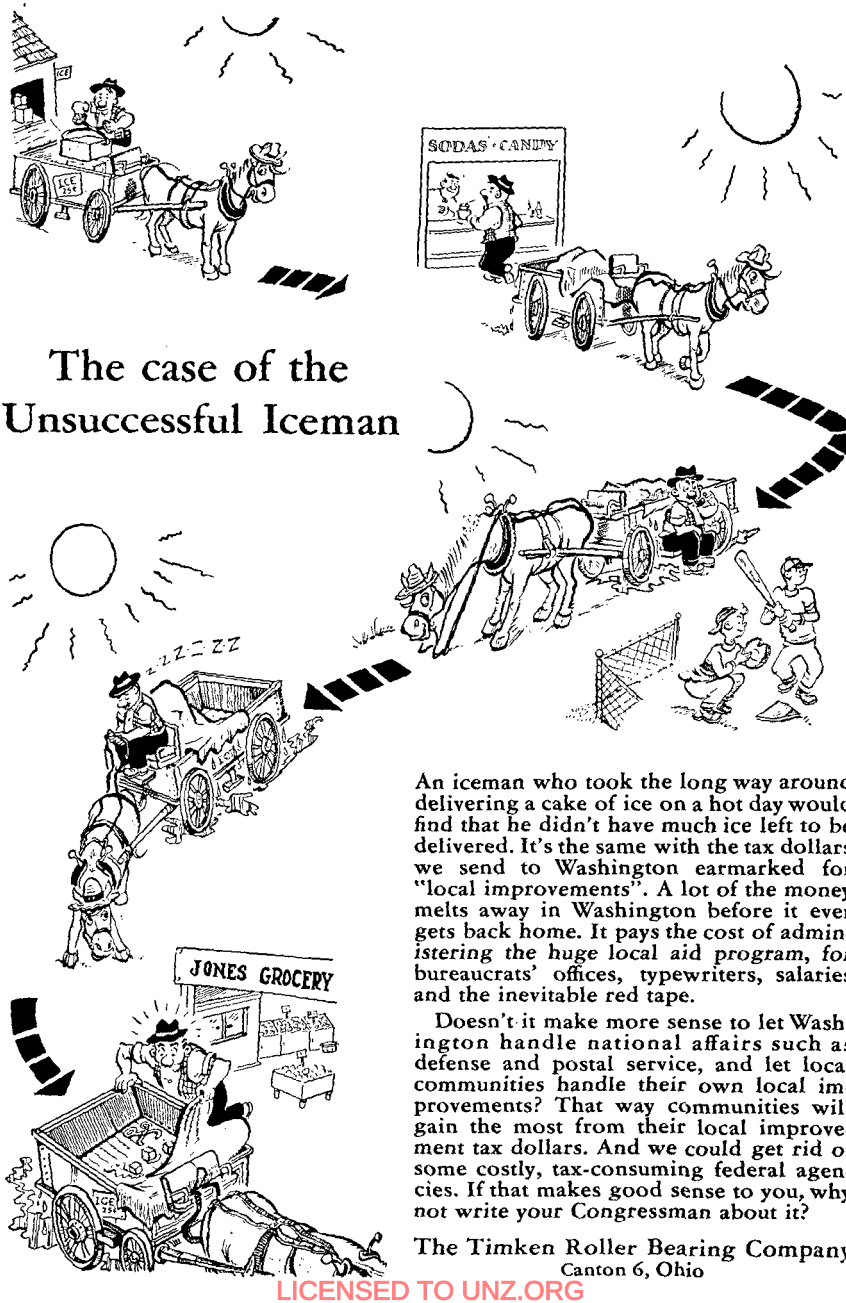


# The case of the Unsuccessful Iceman

An iceman who took the long way around delivering a cake of ice on a hot day would find that he didn't have much ice left to be delivered. It's the same with the tax dollars we send to Washington earmarked for "local improvements". A lot of the money melts away in Washington before it ever gets back home. It pays the cost of administering the huge local aid program, for bureaucrats' offices, typewriters, salaries and the inevitable red tape.

Doesn't it make more sense to let Washington handle national affairs such as defense and postal service, and let local communities handle their own local improvements? That way communities will gain the most from their local improvement tax dollars. And we could get rid of some costly, tax-consuming federal agencies. If that makes good sense to you, why not write your Congressman about it?

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Unless the objective be a moral vacuum, there is a need for . . .

# VALUE JUDGMENTS in the Classroom

PATRICK M. BOARMAN

IT TOOK Sputnik to awaken Americans to the noxious effects on American secondary schools of a quarter century of "progressive education." Increasingly, we are recognizing that a wrong-headed emphasis on "life adjustment" courses to the neglect of standard disciplines such as mathematics and languages has enabled the Soviet Union to equal and even to overtake us in various crucial areas of science and technology. But in all the ferment about the deficiencies of our secondary education, relatively little attention has been given to the *moral aimlessness* of much of American higher education.

While the Soviets are bending every effort to disseminate the values of communism both at home and abroad, not a few professors at American institutions of higher learning are showing increasing

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concern at the intrusion of values of any kind into the classroom. Once again we are hearing the well-worn cliché about the exclusion of value judgments from the lecture hall and the need to preserve the scientific objectivity, i.e., the moral neutrality, of higher education.

"Too many of us [teachers]," opined a colleague of mine in a student newspaper, "are frustrated preachers, frustrated world-savers, forgetting we are not hired for our values (hiring criteria which would violate academic freedom). A teacher who seeks converts from his captive, receptive audience is bullying, however kindly. In shaping values he is doing somebody else's job (probably the student's) while neglecting his own. . . . Should the historian advocate democracy, or the sociologist deplore segregation? Even when the instructor is confronted point-blank with an answer-demanding student, the answer is NO; education and propaganda differ in goals and therefore in techniques. Having political, economic, and religious views is everyone's right, but not a teacher's classroom privilege."

What precisely are the "values" which are so feared? Values involve commitments to *a priori* moral positions. To have values means to have standards in terms of which things or events or persons are judged as good or bad. To believe in the inviolable dignity and worth of every human being, for example, is to make a value judgment. To believe that man has certain inalienable rights such as life, liberty, and the pursuit of happiness is to accept without further argument certain "values." To be in favor of honesty, fair play, and respect for parents, to be opposed to murder, robbery, involuntary unemployment, and unnecessary suffering, to stand for human freedom and against totalitarianism – all these constitute value judgments or moral judgments.

Is it possible or even desirable to exclude such values or value judgments from classroom discussion?

### *Values in the Physical Sciences*

Historically, the movement to eliminate value judgments from scientific inquiry is associated with the flowering of the physical sciences in the Renaissance and post-Renaissance periods. Advances in the physical sciences required an open mind and a willingness to throw overboard unproved hypotheses in the light of new evidence. At the same time, certain cosmological doctrines inherited from the past (e.g., the earth is the center of the universe) proved extremely difficult to dislodge be-

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cause of their association in the minds of many with the theology and the system of values of Western Christianity. A disastrous and thoroughly unnecessary conflict between science and religion was provoked by the refusal of some ecclesiastical authorities to relinquish the erroneous idea that the truths of Christianity are somehow bound up with the Ptolemaic cosmology (witness Galileo's difficulties).

There is, of course, no logical or essential connection between physical phenomena or physical laws and a given set of values, but this realization came only after a period of frustration for the pure scientists – hence, the early and persistent animus in scientific circles against value judgments and value systems. On the other hand, not a few of the most competent scientists of the modern era (the names of Max Planck and Pasteur come to mind) were devout Christians, that is to say, they held strong opinions about man, his place in the universe, his ultimate destiny. These men lived and worked within the general framework of their Christian assumptions though they did not regard these value premises as immediately relevant to the investigation of physical phenomena. They saw, at any rate, no incompatibility between their belief in science and their acceptance of the idea that there are some values which are valid for all men, as men. It was left to nineteenth century positivism to attack value judgments *per se,* to claim that all values are relative, and to spread the false and irrelevant notion that the ideal scientist is one who makes the fewest possible value judgments.

### Man Must Have Values

Now if there are sound reasons why value judgments should be banished from the pure scientist's laboratory (if not from the other areas of his life), this is certainly not true of the social sciences. For the social sciences do not deal with inorganic materials nor primarily with biological functions nor even with the organization of ant colonies. They deal with man, the source and subject of values. Man must have values; the "valueless" man is a monstrosity and he does not, in fact, exist. Consequently, the social scientist cannot be indifferent to what is "good" or "bad" for man.

Indeed, the premises of social scientists are themselves value judgments. The sociologist who endeavors to trace the causes of disintegration of the family assumes that "integration" of the family is "good." The economist who probes the causes of business cycles assumes throughout that the invol-

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untary mass unemployment generated by cyclical fluctuations is a social evil. It is the latter assumption, indeed, which gives point and significance to his inquiry. The political scientist who contrasts democracy with totalitarianism, or slavery with freedom, assumes in his premises that the human situations these words describe are either good or bad. In short, the point of departure for the social scientist is a value judgment of some kind.

### *Make Known the Premises*

To say that the social scientist necessarily begins with value-loaded premises does not mean, of course, that he has *carte blanche* to indulge in an emotional orgy of mere opinion, for if he did, his activities would cease to deserve the name of science. His obligation as a scientist is to state his premises, i.e., his value judgments, clearly and explicitly and then to construct syllogisms from whose second and third terms, at least, value judgments have been excluded. In the social sciences, this is sometimes hard to do (which doesn't excuse us from making the effort).

To illustrate: one way of solving the problem of poverty in old age (note the value premise) is to enact an all-embracing federal welfare program for this purpose. A plausible case can certainly be made for this type of program. But there is an alternative solution, viz., more effective mobilization of the resources of the private sector of the economy (by increasing the scope of private insurance programs and of private pension plans, and the like). If we assume that both types of solution, the governmental and the private, are equally economical and efficient, then the economist who generally favors big government and takes a dim view of private enterprise will tend subconsciously to favor the governmental solution. A value judgment will enter his syllogism even in that portion of it which he believes to be "value free." Likewise, the economist who supports an increase of private activity in the welfare field because he fears the ultimate consequences of unrestrained growth of central government, will have admitted a value judgment to his conclusion as well as to his premises.

It might be added that economic science itself is meaningful only within the context of a value, to wit, freedom. The laws of supply and demand presuppose the freedom of producers and consumers to respond to the stimuli of the market and thereby to make effective their respective value judgments. The economist's diagrams of the elasticity of demand and the marginal efficiency of capital posit

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freedom just as the physicist's equations posit a finite universe.

### *Students May Agree or Not*

The point of all this is that it is hardly possible to exclude values or value judgments from the social sciences. Obviously, every effort should be made to prevent their intrusion into the stages of argument which follow initial premises. Where this cannot be easily done, the values in question should be made explicit and their relevancy justified.

It is far more insidious for a teacher to present his arguments and his position in a classroom as if these were completely value free (when in fact they are not) than for a teacher to state his premises frankly and openly and then go on to seek the truth that flows from these premises. A teacher who prides himself on his ability to leave his values outside the classroom, who tries to pretend that he is indifferent to infanticide, wife-beating, racial intolerance, and involuntary unemployment is probably either a monster or a hypocrite.

When values are clearly stated, students are free to agree or disagree with them. But where values are concealed in the name of a specious objectivity, students will be brainwashed without being aware of it; they will be hoodwinked, even though unintentionally.

It is, indeed, disturbing to find increasing numbers of social scientists acting as if values had nothing to do with them. The explanation is to be found, partly, in the social scientists' deep sense of inferiority vis-à-vis the physical sciences (physicists produced an atom bomb, after all, but economists can't even cure a mild recession). This inferiority complex impels the social scientists to ape the wholly inappropriate techniques and attitudes of the physical scientists (including the latters' ability to ignore value judgments, at least in the short run). But not all the abracadabra of mathematical formulae and esoteric jargon with which we fondly imagine we are conferring exactitude on the social sciences can turn man into a molecule or an atom. Behind the curves and graphs and equations and the mysterious terminology stand free human spirits, incomparable and unique. And while we can estimate with some precision what man will do as a member of the herd, we cannot, no matter how hard we try, argue away his values. Values are a part of man and therefore a part of the study of man.

The idyllic period is past (if it was ever justified) in which we can abstract from value judgments

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in the social sciences. If we persist in our ostrich attitude, we may discover all too soon that, like Archimedes, we have been drawing geometrical tables in the sand while conquering hordes have been breaking into the city. Even the "purest" of our scientists, the atomic physicists, have been doing rather considerable moralizing of late as they awaken to the horrendous possibility of their "science" being used to exterminate the human race.

### *Avoiding a Moral Vacuum*

If a list of the most inspiring and influential teachers of the past could be drawn up, it might well show that the majority were men who were strongly and even passionately committed to certain values and who communicated these values both in the classroom and outside it. Education is, after all, not a one-sided process aimed exclusively at the communication of facts and the development of skill in correct reasoning. Education of the whole man is also moral, that is, it involves the inculcation of values. To abdicate this responsibility in the name of a spurious scientific objectivity is to create a moral vacuum in the minds and hearts of our youth.

It was the cult of a misplaced objectivity in the German universities which was partly to blame for their being the *first* instead of the last bastions of freedom to fall before Hitler's onslaught. And the behavior of a not inconsiderable segment of American youth today has furnished some pretty shocking evidence as to the kind of "values" that can and do fill the moral vacuum. It is time that we learned afresh the truth that if liberty, justice, and human dignity are to survive in the world or even in this country, they cannot be ignored – either outside the classroom or in it. • • •

IDEAS ON LIBERTY

### *Safeguards of the Spirit*

BUT WE MUST FACE the truth, that in the modern world genuine protection is no longer to be found in material safeguards alone.

The only real protection remaining is the spirit of man. Consequently we cannot afford to compromise with moral principles. In the moral world there is no golden mean between virtue and vice, there can be no averaging of opposites. Our obligation, even in selfish terms of survival, is not to find an accommodation with evil, but to oppose it and in the end to overcome it.

DAVID SARNOFF, *The Moral Crisis of Our Age*

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# Government Sets a Pattern

E. F. HUTTON

**As Warner & Swasey has stated in an ad in *U.S. News & World Report:***

"THERE'S NOBODY HERE BUT US CHICKENS"
AND WE'RE GETTING MIGHTY CONFUSED

In the last 3 years six different agencies of the federal government lent 35 million dollars to encourage increased poultry production.

A seventh government agency is spending 12 million dollars to buy surplus eggs to remove them from an oversupplied market.

AND YOU CAN GO ON from there. Punch drunk Uncle has invested billions in surplus farm products, and is paying a million dollars a day for the warehouses to store them in.

But at the same time Uncle is bringing thousands of acres of desert land into more cultivation by huge irrigation projects, at a cost up to $1,000 an acre!

With thousands of empty hospital beds, Uncle builds more hospitals.

To make it possible to drive cars 70 miles an hour, even on rural highways, Uncle is spending billions, straightening out curves and grades that are part of the charm on little-used rural roads.

Why is it so necessary to drive so fast? Where are we going anyway?

Don't drunks and fools kill themselves – and others – on four and six-lane highways that are as straight as a gun-barrel and as flat as our pocketbooks?

What, in short, is Uncle doing to the character of our people when he acts like a drunken sailor himself? • • •

*Mr. Hutton is the well-known industrialist, investment banker, and author of the column, "Think It Through."*

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# NONE SO VIRTUOUS

RICHARD L. FRUIN, M. D.

*Messenger of sympathy and love*
*Servant of parted friends*
*Consoler of the lonely*
*Bond of the scattered family*
*Enlarger of the common life*
*Carrier of news and knowledge*
*Instrument of trade and industry*
*Promoter of mutual acquaintance*
*of peace and of good will*
*among men and nations*

YOU PONDER THESE LINES. A litany of the church, perhaps? A paean of Greek antiquity, rhapsody to a god, recitation of an ancient epic, salaam to an Oriental potentate? Surely no reference to any earthly being or business, you judge.

But you would be wrong; for these extravagant phrases refer to that earthly business, the United States postal system – carved in marble on the facade of "your" post office in Washington, D. C.

Who phrased or carved these lines is unimportant now, though his acquaintance with the facts about the government postal monopoly must have been quite superficial.

The Post Office Department has reported a deficit in all but eight of the past 130 years – recently approaching a billion dollars annually. And what the cumulative deficit might have totaled, under an accurate system of accounting, is anybody's guess.

Living Americans have witnessed no exception to this monopolistic "enlarger of the common life," but a study of history reveals that there have been various alternative methods of handling the mail.

Men have sent messages to one another from the dawn of civilization, and out of it have evolved mailmen and postal systems. The word *post*, from the Latin, refers to the stations along the roads of the Roman Empire where messengers were kept ready to relay dispatches. But the post office as known today did not exist in the ancient world.

The beginnings of the modern postal system go back to the time of Charles V (1500-1558), Emperor of Spain, Netherlands, Austria, parts of Germany, Lombardy, and other areas. An administrative

*Dr. Fruin is a physician and surgeon in the Armed Forces.*

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service was needed to transmit orders to the generals and officials of this far-flung, overextended empire. And as a source of revenue for his ambitious, grandiose schemes, Charles had his dispatch riders carry messages for the rising class of businessmen. This was an important first step toward the development of state monopoly in European post offices. Such a monopoly also afforded a convenient means of spying, information seeking, and the reading of letters by the minions of the rulers.

### *Early Postal Service*

Formal postal services on a private enterprise basis began in the American colonies as far back as 1639. In 1706, the British government took over the privately owned intercolonial postal service and made it a branch of the general post office in London.

Benjamin Franklin served as Deputy Postmaster General of the British Colonies in America from 1753 to 1774. The Continental Congress at the outset of the Revolution in 1775 appointed Franklin Postmaster General. When our Constitution was adopted in 1789, it gave Congress the power to establish post offices and post roads. A law of the same year created the office of the Postmaster General of the United States.

How did it happen that our hardheaded Founding Fathers (who created the freest country the world had ever seen) saddled us with this deficit-ridden, socialized, governmental monopoly? They didn't! In those days, the postal service was a fertile source of revenue for the infant Republic. In fact, our early government was essentially operated on the revenue from Customs and the Postal Service. Private postal systems were not prohibited and in some places they flourished.

Adam Smith in his monumental *Wealth of Nations* published in 1776 had this to say of the post office: "The post office, an institution to facilitate commerce, over and above defraying its own expense, affords in almost all countries a very considerable revenue to the sovereign.... perhaps the

A. Devaney, Inc., N. Y.

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only mercantile project which has been successfully managed by every sort of government. There is no mystery in the business. The returns are not only certain but immediate."

"Progress," it appears, has been made since the days of Adam Smith and our Founding Fathers. Competition with private enterprise kept the government's postal service fairly modest, effective, and efficient until 1860, when that logic of officialdom – force – was invoked to establish a political monopoly in postal affairs. But in the entire history of the U.S. Postal Department, the improvements have come only as a result of private initiative and enterprise.

An interesting example of such an improvement was afforded by the efforts of an ingenious New England Yankee more than a century ago.

In 1844, discontent with the postal service was rampant. Rates were sky-high, delivery at a snail's pace. It cost 18¼ cents to send a letter from Boston to New York, 25 cents to Washington.

Lysander Spooner decided to enter the business in competition with the U.S. government. His American Letter Mail Service offered delivery between New York and Boston at 5 cents a letter, regardless of weight. The public response encouraged him to extend his operations to Philadelphia and Baltimore. His cheaper and faster service threatened to put the post office out of business.

Washington was outraged, insisting that the Constitution authorized Congress to establish post offices. But Spooner's rejoinder was that the Constitution doesn't say a private citizen *can't*. Eventually, federal harassment and threats of jail forced him to discontinue operations, but not before he'd proved that a cheaper postal rate was possible. The government lowered its rate in 1845 to 5 cents, and in 1851 to 3 cents.

### *Political Determination*

Political considerations determine postal rates. That's why it costs as much to send a letter across the street in your home town as to send it three thousand miles across the continent and have it delivered to an isolated farm. It is said that all Americans should have this opportunity for cultural and educational purposes. Should we also bring New Mexico ranchers to the New York Metropolitan Opera and art museums for fifteen cents, which is the rate New Yorkers pay?

Defenders of the postal deficit contend that the post office is "not for money-making but for public service." But profit is the only real proof of service rendered. "Public

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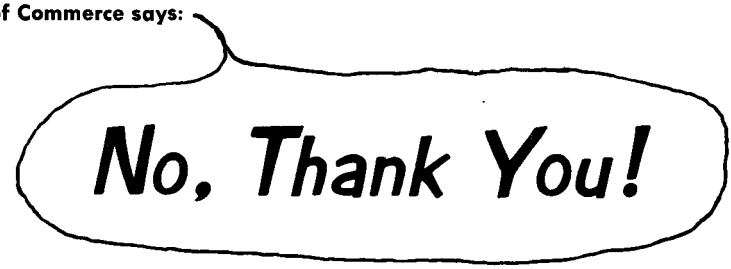
service" is simply a misnomer for wasteful political activities that are charged off to the taxpayers.

The kind of "public service" exemplified by the postal monopoly is costing the typical American citizen a third of his earnings today. It may be too much to hope that postal services be opened to competitive private enterprise. But at least we should learn to resist carving in marble the idea that there is anything divine about the way government operates a business. Edward Everett (1794-1865) may be forgiven for regarding "the Post Office, next to Christianity, as the right arm of our modern civilization." But there is no longer any excuse for such illusions. • • •

**The Manager of the New Albany (Indiana) Chamber of Commerce says:**




April 29, 1958

DEAR MR.....:

Indeed we will not support an effort to bring pressure on the House Appropriations Committee for funds to construct the Cross-Florida Barge Canal. Our congressman is a member of that committee, and we want him to know we are maintaining a consistent position on federal spending; we shall send him a copy of this letter. There is no greater domestic need in these times than for a substantial reduction in spending by the federal government, so that both the national debt and taxes may be reduced and the threat of returning inflation may be avoided.

We are familiar with the argument, usually put forward in situations of this kind, that the improvement will so stimulate business that the resulting increase in taxes paid to the federal government will soon pay for the original expenditure. The trouble with that argument is that the people have been able to think up new spending schemes more rapidly than the

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income has increased. Why else should federal revenues have fallen short of expenditures in all but four or five years since 1930 and the national debt moved persistently upward? In that respect Uncle Sam is in somewhat the same position as the man with an income of $300 a month whose wife rushes around spending $350 a month taking advantage of "savings" at bargain sales.

The 1957 edition of the *Statistical Abstract of the United States*, published by the Bureau of the Census, shows that for 1955 (latest information available), General Revenues of the State of Florida were $383,944,000 and General Expenditures were $383,928,000, leaving a surplus of $16,000. The state's debt was $85,758,000, or 22.3 per cent of the year's revenue.

For the same year the net receipts of the federal government were $60,389,743,000 while expenditures came to $64,569,973,000, a *deficit* of $4,180,230,000. The national debt then stood at $274,374,000,000, or 454 per cent of revenues for the year. It would appear that the financial position of your state may be much more sound than Uncle Sam's. Could it be that the state of Florida could better afford the construction of the Cross-Florida Barge Canal than could the federal government?

As for us, we have recently turned down suggestions that we exert pressure for federal spending right in our own back yard, and we are certainly not going to jump on the bandwagon and start beating the drum for somebody else's pet project.

Yours truly,
JIM PATRICK

IDEAS ON LIBERTY

## *Privilege and Politics*

WHENEVER the sovereign authority invades the marketplace, it is inevitable that what we naively call "corruption"—which is but the political means of acquiring economic goods — will pollute the economy. History is so emphatic on this point that one wonders at the persistence of the pollyanish hopes of public-ownership advocates; in the final analysis these hopes must rest on sublime faith in the miraculous mutation of human nature in public office. The partnership of privilege and politics is as natural as the marriage of men and women; the way to dissolve the ensuing monstrosity of "corruption" is to dissolve the partnership by forbidding political meddling in the affairs of the marketplace.

FRANK CHODOROV, *The Myth of the Post Office*, published by Henry Regnery Company.

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RAE C. HEIPLE II

# CAMPAIGN PROMISES

**. . . used to win a 1958 Primary fight for State Representative in Illinois**

THE forgotten man. . . . A cross of gold. . . . Greenbacks for all. . . . Yes, down through the years we have heard the calls.

Calls mouthed by even the stammering tot. . . . A car in the garage; a chicken in the pot.

French, Spaniards, Phoenicians, and Greeks – all knew the shortcut to abundance. Simple? Of course! Clip the coin, dilute the metal, issue script, and roll the presses. Money buys things, doesn't it? Well, make money! More money to circulate to stimulate trade, for better distribution, and employment for all.

Oh, yes, we've heard the call. The promises sparkle; they always sound new.

But the story is as old as time, as unchanging as human nature. No matter how many times it has been tried, what name was given to it, who administered the plan, or what the honesty and good intentions, inflation has always brought poverty, not abundance. It always will. It is as simple as ABC. It is sure as rain.

The reason: man responds to incentives. He will work if rewarded. He will not work without reward. He will save if it is profitable to save. He will not save if it does not profit him to save. He will not save if he can get no interest on his money, or if his money deteriorates in value. We don't save old pancakes, and we won't save dollars either if they are going to be less and less valuable every year.

Saved money is what bought every diesel railroad locomotive in the U.S. today. It bought every lathe, broach, and milling machine. Yet, the men, widows, and children who loaned the money to buy these machines to produce our abundance were fools. Inflation made them fools. $2,500 in 1939

---

*Mr. Heiple is a young attorney from Washington, Illinois.*

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would have built a house; now it will barely buy a good automobile. How long will people save if this continues? How long before they "wise up" and stop providing new locomotives and lathes? It will be when the savers realize inflation is here for good. We will then have had it.

Inflation destroys ambition and creativeness. It defrauds the honest and punishes the thrifty. It is caused by government living beyond its means, by deficit, by manipulation and manufacture of money, by tampering with interest rates and credit expansion, by confiscation and redistribution. • •

## FREEDOM OF CHOICE

SOMEONE figured it out. . . . We have 143,791 laws to enforce the Ten Commandments.

Suppose you should want to shoe a horse tomorrow. The policeman won't let you. If your neighbor wants to haul your garbage to the dump, he isn't permitted. If your cousin Rachel, on the old farm, should continue her egg and cream route, just bring her next birthday present to the jailhouse. Ridiculous, you say? Yes! Ridiculous because it is true.

It used to be that if you were a good horseshoer, you were in business; and if you sold ripe eggs, you weren't. But not anymore. Nowadays it seems that people aren't as smart as they used to be. All the smart ones must be in the legislature.

No longer can we tell for ourselves whether an egg is rotten, whether the garbage man can haul garbage, or whether the shoe stays on the horse. Whether there ought to be a law or not, there is.

It would be comical if it were not so pathetic.

The rationale of this "big brother" philosophy is based on a faulty premise and constructed of fallacious reasoning. Its absurd reasoning is this: (1) Most people are so dumb that they don't know what is good for them; (2) The elected officials and appointed bureaucrats are so smart that they know what is good for others; (3) That by regulation, license, and code, everyone is going to get what the officials think the people should have. So runs their argument. Ridiculous? Yes! To say that you and I don't have the judgment to choose a competent garbage man, horseshoer, barber, or plumber is an insult to our intelligence. Yet we are permitting ourselves to be so insulted in each of these fields.

To say that 235 men in Springfield can pick every competent and discard every incompetent barber, plumber, horseshoer, and garbage man in the whole state of Illinois is a statement of absolute and supreme arrogance. Yet every time

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a license is granted or refused, it is state-pronouncement of competency or incompetency.

To say that regulation and license guarantee good work is incredible. Just ask your barber or plumber sometime about their inspection and supervision. Ask them if it assures competent men and qualified work. They'll tell you it's a joke. All it does is create a lot of political jobs.

Our country is built on freedom — on the right of each individual to choose for himself what he wants — even though we might have made a different choice. You cannot protect people from their own ignorance. You cannot, by legislation, abolish mistakes. Freedom includes the right to make a mistake as well as the right to make a wise choice. • •

## ALL THINGS TO ALL PEOPLE

IT SEEMS to be the popular trend nowadays to proclaim your devotion to everyone. A candidate just *isn't* unless he is for business, for labor, for farmers, for producers, for consumers, and for everything that costs money. No one is content to grow up and admit there is no Santa Claus.

For a good many years we have been kidding ourselves that the government should and could guarantee every employment and economic group a better deal than the next. That crackpot scheme worked OK for awhile. It worked just about as long as the chain-letter-get-rich scheme. It goes over big for the first ones to get in the promotion, but pretty soon everyone is promoting and there aren't any "fall guys" left. The idea of an *above average* standard of living for everyone is, of course, a contradiction and impossible on its face, if you should think about it.

What I am trying to say is that individuals create their own success and prosperity. If you get the government to give you something it has taxed away from another, that fellow and countless others are going to get theirs by taxing you. And you can't blame them. It's a matter of self-defense.

The farmers may be receiving benefits, but they are in turn being taxed to benefit labor, consumer, business, banking, and so on. The same is true for each of the other groups. It is all just a lot of wasted effort applied to a very inefficient machine. You never get out what you put in. • •

## RIGHTS OF THE INDIVIDUAL

IN THE PROGRESS of history we have had the Stone Age, the Iron Age, and the Machine Age. We are today living in what some have called the Age of Conformity . . . . the age in which the quest for security has displaced opportunity.

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The accent today is on the group. The individual is of little concern. The mass is all that matters.

This false doctrine is shot through our whole society. Schools are geared in accordance with the norm and ignore individual ability and special talent. Law puts social responsibility ahead of individual rights. Politicians cry for the good of the greatest number without a thought of the individuals who suffer. Economists study institutions, not people.

The end result of this kind of thinking is the worship of the government as an idol — to believe that it can do anything except something wrong — that the unfailing way to find right, truth, and justice is to take a popularity poll. We act as if the State can feed us when we are hungry, heal us when we are ill, raise wages and lower prices at the same time, educate our children without costs, give us electricity by passing laws, and improve the game of baseball with regulations. We need just pass a law and then stand back and be overwhelmed with all the goodness of life.

Let's try to be sensible for awhile. It is the differences in people that make possible our progress. The object in education is to develop your own special abilities to their utmost, not to conform. We as individuals have rights that the majority cannot take away from us.

It is time we used our common sense. Hard work, not legislation, makes production. Production, not regulation, makes prosperity. The legislature cannot amend the laws of economics anymore than it can the law of gravity. • • •

IDEAS ON LIBERTY

## *Getting Out of Jams*

THE TENDENCY of a Federal aid operation is by its nature to rigidify. The idea is to help the people, and the simplest way to help people without jobs is to put them on a dole. Beyond that, the attempt is to get them back to doing what they were doing before they lost their jobs, while their real need — and the community's economic need — may be precisely to provide new kinds of jobs or jobs in new places. Nothing will discourage local incentive so fast as Federal intervention, even of an enlightened kind.

From the *Wall Street Journal*, November 9, 1955

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R. C. HOILES

***That so many of the consequences are unseen explains . . .***

# *why Protection is easier to sell than* COMPETITION

THERE MUST BE a reason why protection or the Welfare State is so popular and has made such headway in our country and throughout the world.

Undoubtedly it is because many people believe it is the best way to relieve poverty and promote more general prosperity.

If that is true, then why do they so believe? Could it not be because the material results of protection, in whatever form it takes, are both concentrated and obvious, while the costs, the consequences, are diffused, concealed, spread out in small amounts? Force is usually quicker and more noticeable than persuading – getting a person to think and reason.

When the State gives a man material assistance or protection from competition, it relieves him immediately and temporarily of part of his problems. It is so concentrated and concrete, it is easy to see, while the taxes for this particular protection are diffused and indirect in most cases. Or when labor unions protect a worker from competition of other workers and he gets an increased money wage, it is easy to see. It is also immediate. In short, the benefits are concentrated and present and thus easy to see, while the costs, the disadvantages, are diffused and paid for in small amounts by many other persons and are thus harder to see. Superficially, the costs may seem to be postponed, as though the redistribution were yielding a societal advantage for a time; but this is strictly an illusion stemming from inadequate cost accounting methods. The actual costs, if they could be seen, are as real and as immediate as are the presumed benefits.

The union member sees he gets

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more dollars in his envelope and thus believes he is benefited. What he does not see is that if he can get temporary material benefits by striking, many other workers will do the same thing. Nor does he see that the employer has to get all the money he pays in wages from his customers – other workers. If he is not able to collect all costs, including wage payments, and if there are no profits or no hopes for profits, there are no jobs. This unemployment reduces production and increases prices. On the other hand, the more profits, the more competition between employers to hire help, the higher real wages will be. Also, the more competition in selling the product, the lower prices the employees have to pay. This is continuous and diffused and thus harder to see.

So all these extra labor costs are passed back to other workers, past or present, along with any extra costs that stem from lower production, unemployment, featherbedding, seniority, strikes, nonproductive business agents, lack of individual responsibility, and so on.

But these costs are diffused – a penny here and there on the hundreds of different items everyone uses – and they are thus harder to see. Besides, they are lumped with all other costs so that it is difficult, if not impossible, to know how much they total.

The same diffusion that takes place in labor unions' added costs takes place in every protection or subsidy by the government – federal, state, county, city, or board of education. The added costs in the form of taxes are diffused and scattered over thousands of articles and are not as noticeable as the subsidies or the gain resulting from government or labor union protection.

Most people look at immediate wages or prices they get for what they sell under protection as all benefit, and fail to see the little additional prices added to hundreds of items they buy. Nor do they see that these added costs continue as long as the cause continues.

It is also difficult to see how a free and unhampered market benefits the worker because the benefits are on everything he buys though small on each item. The benefits are not in one lump sum. Nor are they temporary, as are arbitrary wages, but continuous and cumulative.

The benefit of personal charity also is concentrated and easy to see because it is a lump sum.

Many people believe the donor is benefiting mankind more than the person who puts the same wealth into tools that increase production, thus raising real wages and lowering prices in a continuous process. The benefits from more tools are

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so diffused that many people think continuous charity is more beneficial to mankind than furnishing tools that benefit everyone.

The duty of every person is to try to understand what means must be used if we are to have peace and more and more prosperity for all.

Those with practical experience in producing the comforts of life are convinced that the best way is for each and every person and the government to have respect and reverence for the creative energy of all mankind.

Free, private enterprise is not as spectacular nor as easy to see as the socialist way of temporarily diffusing poverty by eating up the seed corn – the tools – which will increase poverty in the long run. Free enterprise is the surer and so far the only known way of constantly improving the well-being of mankind.

What we need is not to be blinded by the transitory benefits of protection but to see the blessings that continuously follow the free, private enterprise system, even if it is harder to see – that the gain of one in creating wealth is the gain of all. • • •

IDEAS ON LIBERTY

## *Saving the X Industry*

IF WE HAD TRIED to keep the horse-and-buggy trade artificially alive, we should have slowed down the growth of the automobile industry and all the trades dependent on it. We should have lowered the production of wealth and retarded economic and scientific progress.

We do the same thing, however, when we try to prevent any industry from dying in order to protect the labor already trained or the capital already invested in it. Paradoxical as it may seem to some, it is just as necessary to the health of a dynamic economy that dying industries be allowed to die as that growing industries be allowed to grow. The first process is essential to the second. It is as foolish to try to preserve obsolescent industries as to try to preserve obsolescent methods of production: this is often, in fact, merely two ways of describing the same thing. Improved methods of production must constantly supplant obsolete methods, if both old needs and new wants are to be filled by better commodities and better means.

HENRY HAZLITT, *Economics in One Lesson*

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# Slums AND MANSIONS

HANS F. SENNHOLZ

THE PRESENT RECESSION has intensified the statist clamor for more public housing and "slum-clearing" on grounds that large-scale construction activity constitutes a make-work measure and thus alleviates the present recession. Widely overlooked is the fact that resources for public housing construction are taxed or "borrowed" from other uses, thus acting as "reduce-work" measures in other sectors of the economy. Insofar as the operation may be financed by government inflation or monetary depreciation, the "stimulation" must take the customary form of boom and recession.

What actually is a slum and what are the characteristics of the people populating it? According to one definition, a slum is a city district that is substandard in living conditions. The standard is established by the city authorities to serve as a model. It is obvious that in this case the authorities can enlarge or reduce the slums merely by raising or lowering this standard. If it is raised high enough, most houses, or even all houses, may be declared slums because probably no house represents the best that modern technology can build.

But government officials are not alone in setting standards that by their very nature must be arbitrary. The general public also is influenced by arbitrary standards when defining slums as city districts marked by squalor and wretched living conditions. The definition obviously depends on the notions, judgments, and experiences of each individual. In the United States where living conditions are incomparably better than in the so-called underdeveloped countries we may describe a slum in terms which to a Chinese or Hindu may sound like a mansion.

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Whatever a slum may be, people create it. It isn't buildings that make slums, but people. Some people tend to create a slum wherever they move. Others give cleanliness and orderliness to any surrounding. This fact also explains why subsidized housing that actually succeeds in attracting slum dwellers deteriorates quickly into new slums. Our experience with subsidized public housing since 1937 clearly demonstrates this.

### *Public Housing Breeds Slums*

Income controls admission to subsidized public housing. To enter a project a person must not earn more than a certain income with allowance being made for the size of his family. In Chicago, for instance, a one or two person family must not earn more than $3,600.

Income is not only the basis for admission but also it determines the tenant's rent. Public housing projects aim at attracting a spread of tenants in various income brackets. Those in higher brackets pay higher rents for the same facilities than do those in lower brackets. When a tenant's income rises, his rent also rises. When his income surpasses the top limit, he must move out.

These principles suffer from several shortcomings whose disastrous effects create vast public slums. Subsidies are paid and received on two levels. First the whole project with all its tenants is subsidized by the taxpayers. Then the lowest income tenants are subsidized by the tenants in higher income brackets paying higher rents. The difference in rent is often considerable. For instance, in Chicago the rent for the same facilities varies between $31 and $96 a month.

Receiving and paying subsidies are radically different things. In this age of welfare state mentality many people indeed are eager to be on the receiving end, but they are very reluctant to participate in subsidizing others. A tenant who pays rent at the higher level may feel that he is "sharing his wealth" with his neighbor. In fact, he may begin to wonder if he hasn't become the victim rather than the beneficiary of public housing.

To pay more than others do for the same good or service conflicts with man's sense of fairness and justice. This is the psychological reason why public housing projects are crowded with tenants paying minimum rents. The "cross-sectional" rent principle does not work because renters at the upper end of the scale tend to move out long before they have reached the permissible limit. Consequently, public housing projects often fail to earn even the operating costs.

In Chicago's projects, half of the tenants are paying minimum

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rents. In some New York housing projects a majority of families are on relief. The ones that cling to minimum-rent housing are mostly problem families without incentive to increase incomes. Recent studies by the *New York Times* and the *Wall Street Journal* found the conditions in public housing to be shocking and appalling. "These monstrous aggregates in which one family out of twenty in New York now lives," says Harrison E. Salisbury in the *New York Times* of March 26, "have tended to become new-style ghettoes. . . . By screening applicants for low-rent apartments to eliminate those with even modest wages the new community is badly handicapped. It is deprived of the normal quota of human talents needed for self-organization, self-discipline, and self-improvement. A human catch-pool is formed that breeds social ills and requires endless outside assistance."

According to Ray Vicker in the *Wall Street Journal* of April 10, "Public housing attracts a high percentage of broken families, families with big broods of children by nameless fathers, other welfare cases and shiftless characters who prefer unemployment to work as long as government agencies provide handouts." It cannot be surprising, therefore, that the solid hard-working families tend to move out as soon as the maladjusted cases move in.

Public housing breeds slums of indescribable squalor and horror. It shuts them up within new walls of brick and steel and thus hides them from the eyes of a gullible public. But the same public is told constantly by a host of socialists and other do-gooders of the cases of poverty and poor housing conditions that existed before the days of the Welfare State. Capitalism is reviled for having created slums which government housing is supposed to supplant.

One may point to the slum conditions of public housing as one answer to these charges, but a further answer lies in some elementary principles of economics.

### Old Slums

Before the days of subsidized public housing, slums only developed in the oldest districts of a city. When the houses were new, they were occupied by tenants who paid rent sufficient to cover interest on the owner's investment, compensation for depreciation, and perhaps also a profit. But houses, like all other earthly goods, begin to deteriorate as soon as they are built. Wear, tear, and old age gnaws at them continuously. Of course, skillful maintenance may retard this process, but cannot defeat it entirely.

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With the deterioration of the houses, the demand for them undergoes a continuous change. The original tenants move on to newer houses with modern facilities and services. And lest the old houses stay vacant, the rent must decline in order to attract tenants in the lower income brackets. This process of deterioration and declining rent continues until the indigent and improvident crowd the premises. Thus do mansions become slums.

### *Other Factors*

Aging buildings are unprofitable. The return on them, as with other investments, is all the more insecure because of the rapidity at which the capitalist economy with its advancing technology improves living conditions. Toward the close of the nineteenth century and during the first decade of this century numerous improvements, such as electric lighting, new heating systems, bathrooms, elevators, and the like, tended to outmode comparatively new housing developments and inflicted losses on landlords.

Another factor that contributes to the unprofitableness of deteriorating houses is the property tax which two or more superimposed governments – state, county, school district, and others – levy on land and houses. While rent income declines, the assessed value which constitutes the basis of taxation usually demonstrates a remarkable rigidity. Especially during depressions when rents decline rapidly, property taxes usually remain the same, or at least fail to decline simultaneously and to the same degree. Consequently, the rate of taxation on market value tends to rise.

The relationship between taxation and housing conditions is through the fact that taxes constitute one of many factors of cost. A man who builds a house for rent expects to be reimbursed by his tenants for these taxes as well as for all other costs. Naturally, without this reimbursement of cost he would refrain from making the investment. Nor would he build the house for his own occupancy unless he expected value or satisfaction greater than the costs, including taxes.

Rent, which is the price for the use of someone else's real estate or housing facilities, is a market price. Like the prices for all other commodities and services, rent is determined by demand and supply. As is well known, costs do not affect prices directly and immediately. However, when costs decline, production becomes more profitable, which in turn will increase the supply and push prices downward. On the other hand, when

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costs rise, production becomes unprofitable, the supply fails to increase, and prices are pushed upward.

The same is true in housing. When construction costs, real estate taxes, or other costs rise, house ownership becomes unprofitable. The supply fails to increase, which in turn tends to increase rent. When taxes are raised on old houses, it becomes unprofitable to own them, or at least less profitable, which reduces their market value. This is true whether a house is occupied by a tenant or by the owner himself. Every tax increase inflicts on the owner a capital loss that amounts to a multiple of the taxes.

### *Property Taxes Worsen Conditions*

Throughout the nineteenth century when government interference with other businesses was greatly minimized, the general property tax was the basic local and state tax, and in many cases amounted to several per cent of the value of land and buildings. And, of course, property taxes are even more burdensome today than they were then.

The restrictive effects of this taxation are enormous. In order for a landlord to embark upon housing construction, his return must yield the tax rate in addition to a net return comparable to that in other industries. In other words, the gross return on housing in the form of rent in many cases has to be double the return on other investments. This is why rents must be relatively high before investment capital begins to flow into the housing industry.

High property taxes, therefore, hamper construction activity and restrict the supply of housing, which in turn causes higher rents. Consequently, housing throughout the nineteenth century was expensive. While food and clothing became cheaper and many other items that used to be luxuries became accessible to American workers, good housing often remained prohibitive. Therefore, many crowded into cheap housing facilities that looked like slums to the planners. The advocates of public housing never mention this restrictive aspect of property taxes when they denounce capitalism.

### *Rent Controls Hamper Construction*

A relatively recent cause of housing shortages and slum conditions is rent control. The enormous inflation during and after World War II tended to increase all prices, including rent. But rents were arbitrarily controlled at prewar rates while such costs as taxes, labor, and materials increased greatly. One reason why rent control has not been wholly disastrous

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is that the controls have not applied strictly to new housing built after the war. Nevertheless, to the degree that rent control has been effective, it has discouraged the production of housing, and has obliged many tenants to pay higher rather than lower rentals.

The dual burden of increased taxes and rent control means a dwindling return to the landlord and a loss in the market value of his real estate. In terms of depreciating money, this may not be readily perceptible because his loss may be hidden by inflationary price rises. But in terms of purchasing power, his loss is real. He loses current income as well as capital. Unless he wishes to play ostrich and pretend that nothing is happening, he must cut costs in order to re-establish the earning power and value of his investment. This is why many landlords have been doing so little to maintain or improve their properties, for such expenditures may merely add to their losses. Houses subject to rent control and rising taxes inevitably deteriorate. Cities subjected to rent control for several decades always have deteriorated into huge slums.[1]

[1]For a description of the effects of rent control in Paris, see Bertrand de Jouvenel's *No Vacancies*. Single copy, on request, from the Foundation for Economic Education, Irvington-on-Hudson, N. Y.

### *Mansions at Bargain Prices*

An interesting side aspect of this problem is the deterioration of costly mansions built and occupied by wealthy people before the days of redistribution. Confiscation of wealth, through inheritance taxes and 91 per cent income taxes on top of 52 per cent corporation taxes, has forced the sale of an increasing number of mansions. The former occupants have sold their estates at whatever prices they could get and have moved to more modest homes.

Heavy property taxes on mansions and large estates have had the twofold political appeal of raising revenue and redistributing the wealth. But instead, they have destroyed the object of taxation. While taxes rose, prices tumbled, until they amounted to a mere fraction of the original construction costs. Needless to say, the construction of mansions practically came to a standstill, and old mansions often fell into the hands of the taxing authorities. Many of the old places have lost their splendor, some standing vacant, others occupied by such tax-exempt organizations as hospitals, schools, and charitable institutions. The property tax thus failed in its fiscal objective but eminently succeeded in its redistributive end.

The development of a city is such that most of the houses in any

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given district are of approximately the same age. Being subject to the same taxation and controls, they deteriorate together. As was pointed out at the beginning, the old tenants move on to more modern quarters and thus make room for other tenants. It is hopeless for a single landlord to fight this change. Even if he were to rebuild and modernize his facilities, the demand would decline because the section is deteriorating. High-rent tenants shun the most modern apartments if they are located in a low-rent neighborhood.

### *Rehabilitation of Slums*

Rehabilitation of a "slum" usually proceeds by large blocks which radically changes the appearance of the district. Such redevelopment involves large capital investment to purchase the old city blocks and to construct modern apartment buildings. However, accumulation of capital in such amounts, by individuals or by companies, becomes increasingly difficult under steeply progressive income taxes and confiscatory corporate taxes. The effect of such burdensome taxation is to perpetuate the old slums.

The Welfare State then seeks to solve the problem through housing projects that breed new slums. Thus government housing is slowly substituted for privately owned homes, and socialism advances another step. But socialism neither improves housing conditions nor otherwise alleviates the poverty of people; it enslaves and impoverishes them. • • •

IDEAS ON LIBERTY

## *Enclosures for the Careless*

THE AUTHORIZED FUNCTION of our government is to restrain those who might attempt to deal coercively with one another. The government was designed to be the defender, not the equalizer, of life and property.

If a human being is ingenious and industrious, he can create a house and claim it as his own. If he is careless enough to let the government do it for him, he will live in the kind of walled enclosure which compulsory state socialism affords — public housing for those who serve political masters.

PAUL L. POIROT, *Public Housing*

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An economic analysis of the case for...

# FIGHTING FIRES PRIVATELY

F. A. HARPER

N. Y. Daily News Photo
Feb. 14, 1958

A SPECTACULAR FIRE broke out in the city of New York on Valentine's Day, and six fire fighters were killed. Two were members of the City Fire Department, and the other four were members of the Fire Patrol.

Who are these Fire Patrolmen? They are men privately employed to fight water damage to property while the City Firemen are fighting fire with water. A group of nearly 200 fire insurance companies hire 180 patrolmen under an organization called the New York Board of Fire Underwriters. Responding to fire calls from four points of departure and using their own trucks and equipment, patrolmen answer all fire alarms – which number about 20,000 yearly in New York. About $25,000,000 in water damage is said to be prevented each year by their efforts – about $140,000 per patrolman.

Despite the hazards of such work, the Fire Patrol's honor roll shows only thirty-two dead during the last hundred years. So four deaths in this one fire is a tragedy of note in their annals.

As frequently happens, the private Fire Patrol on Valentine's Day arrived at the scene of the fire before the City Firemen did. In fact, twelve minutes after the first

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fire alarm sounded there was a cave-in which killed the four patrolmen.

But the main point of this story has to do with the processes of self-interest, self-reliance, and private enterprise. The advocates of more and more governmental services frequently cite fire fighting as a sure-fire justification for more and more governmental operations. They deny that private processes could possibly do such work.

"What about fire protection?" they ask. "You wouldn't dare risk that social hazard to the whims and selfish convenience of private citizens, would you? For once a fire broke out, it would spread from house to house because private citizens would not concern themselves about it until their own house became endangered. So whenever any O'Leary cow kicked over a lantern, entire communities would burn."

The work of the New York Fire Patrol shows how a voluntary system of dealing with fires can operate under private endeavor.

1. Persons who want to insure against fire losses rather than to carry their own risks take out policies in insurance companies and pool their risks with others.
2. Insurance companies, banding together under a mutual interest, hire fire patrolmen to serve them all, thereby reducing the cost of damage claims they would otherwise all have to pay.

It is self-interest that motivates persons to join voluntarily in the mutual insurance plan. It is self-interest that induces the insurance companies to join voluntarily in a fire patrol system. No outsiders are compelled to carry any of the costs involved. In fact, as we shall see, outsiders also benefit.

It would be foolishly expensive for each person to maintain his own fire patrol. It would even be foolishly expensive for each insurance company to do so, having to wait at the time of each fire to see which company's policy covers the building that is burning—whose patrol shall go forth to do the job. The owner probably doesn't remember which company it is, and his insurance policy is probably at the bank or perhaps even in the burning building. The building could burn to the ground during any such delays, leaving nothing for the patrolmen to do when they get there.

So the patrolmen answer every fire alarm promptly without waiting to see which company carries the insurance, if any. Such delay would negate their function. Uninsured persons thus get protection, too, and commonly reward the servers after the service has been

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rendered – insurance of a sort, with payment after the fact, on a basis somewhat different, to be sure, from when a person pays regular insurance premiums in advance.

That is how private, voluntary enterprise takes care of part of this classic problem of fire protection service even in New York where a city fire department is operating under a tax system to pay its costs. Self-interest causes private enterprise to find ways of doing things more promptly and effectively than where the force of monopoly is used to compel participation. Why shouldn't interested persons, motivated by self-interest, be more inventive and more sincerely devoted to the search for better ways of doing the job than are disinterested persons whose search is motivated primarily by political interests? People left to their own devices will not allow fire damage to persist without trying their best to devise ways of preventing it.

The miracle of the voluntary way of pursuing self-interest in no sense denies mutual assistance nor does it even preclude personal sacrifice. It may be argued that people are too ignorant and short-sighted to serve their own interests through voluntary mutual assistance; that this must be accomplished by the political route. Yet the same persons are presumed to have sufficient wisdom to select from among their number a ruler who will use political compulsion unselfishly and wisely.

The voluntary way of doing things cannot, of course, perform the miracle of making people wiser than they are. But the alternative – the involuntary way of monopoly force – prohibits us from attaining the full use of the limited wisdom with which we are endowed.

One thing the voluntary method accomplishes, having almost the appearance of a miracle, is to induce competitors to cooperate in phases of their operations where it is mutually advantageous to do so. The fire patrol system is an excellent example of this wholesome aspect of the voluntary way of rendering services. Competition does not blind wise competitors to the opportunity of mutual advantage in cooperation, wherever it is deemed to exist. Competition means freeing competitors from the disadvantage of forced cooperation – a highly important right of escape in a progressive society of free persons.

As an expression of respect and mourning for those four patrolmen who were killed rendering fire protection in New York on Valentine's Day, let us ponder this lesson which might otherwise have gone unnoticed and unlearned. • • •

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*Though this article was written in early June, based on statistics then available, its point still holds that sound economic policy requires –*

# READJUSTMENT

IF THIS RECESSION should end soon without the government creating additional $7 to $10 billion inflationary deficits financed by the banks, there will be some red faces around the country. Important voices have been warning us that catastrophe would strike unless the government manufactures more spending money immediately and adopts "crash" programs.

Many legislators, including Senators Humphrey, Douglas, and Javits, have urged big, across-the-board tax cuts or public works or both. Columbia University economists declared, "The first major policy step should be to cut federal taxes by about $10 billion a year." (Why not $15 billion – or is this just a number pulled out of a hat?) The Committee for Economic Development recommended an across-the-board tax cut which would come to over $7 billion, and the Rockefeller Brothers Fund Report made a similar recommendation.

It must be remembered that deficits resulting from a giant-sized tax cut would be piled on top of the $10-$12 billion deficits already in sight for next year, thus creating further inflationary tinder of colossal proportions. It is to the credit of President Eisenhower and Secretary of the Treasury Anderson that they resisted this pressure for a powerful, inflationary stimulant now and decided to give the economy a chance to make voluntary adjustments.

Many people have forgotten that a free enterprise system has the capacity for self-adjustment if it is given half a chance. There is now prevalent the theory that *no readjustment* of consequence should be *permitted* to take place. How prevent it? Simply let the government print enough new money and create enough new demand to overcome all the inefficiency, the uneconomic wage rates, the overpricing, the overoptimism and malinvestment – in short, all the economic distortion – that developed during the previous period of inflationary expansion.

*Mr. Fertig is a columnist on economic affairs,* New York World-Telegram and Sun *and other Scripps-Howard newspapers, in which this column first appeared June 9, 1958.*

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LAWRENCE FERTIG

# WITHOUT INFLATION

The only thing wrong with this solution is that the new inflationary impetus wears off just as the last one did, and an increasing dose is urged to prevent a bigger depression next time.

The factors of *both* demand and supply used to be considered of prime importance in a sound economic system. But some people talk as if this is no longer true. "Aggregate demand" is the only factor worth considering, they say. When recession sets in – whatever the cause – just create enough demand (by inflation, of course) and everything will be all right.

The fact that current demand is stifled because costs and prices are in crying need of adjustment, and that we have tried to go too far too fast, is claimed to be of little importance.

Those who have been recommending "crash" programs to increase consumer income and consumer demand must explain some interesting facts. People have money, but they are using it in their own way.

The *Survey of Current Business* published by the U.S. Department of Commerce says, "Personal income in April, at a seasonally adjusted annual rate of $343 billion was $1½ billion above that of March and *up* nearly $2 billion from April of last year." People spent over $108 billion on services in the first quarter of 1958 – $2 billion more than during the third quarter peak last year.

Personal consumption expenditures in the last quarter were at the annual rate of over $281 billion, just a shade under $283.6 billion in the peak quarter of 1957. Furthermore, people are curtailing their debts and putting aside more than ever in liquid savings. For the first four months this year the nation's 520 mutual savings banks reported an $811 million deposit gain, which was over 80 per cent higher than the same period last year. In the face of these facts, can it be claimed that people haven't enough money?

Advocates of "crash programs" want to bolster the sale of consumer durable goods like automobiles and capital goods used in

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plant and equipment for industry. But if the public got a $7 to $10 billion across-the-board tax cut, can anyone predict where that money would flow?

Consumers might still hesitate to buy more automobiles because they are not convinced that the value is there. Businessmen might still hesitate to spend more for new plant and equipment while prices are so high and so much excess plant capacity exists. One thing is quite certain, though. A large percentage of the new money would go into precisely those areas where rising prices are a grave concern to every family of workers, thus increasing the upward pressure on these prices.

The new money would seek to buy more services, more foods and soft goods, all of which have been pushing the cost of living index up. As a consequence, would there not be a rising clamor for price controls?

Since rising costs and rising prices are a problem even during this recession, the problem would be accentuated many times as the currency is increasingly inflated. In this column a month ago we said, "The big question is not will we get recovery – but will we get it without injuring ourselves vitally in the process?"

"Will our remedies be worse than the disease itself? After all, our remedies adopted in the last readjustment (1953-54) caused the conditions which are responsible for the present decline." The American public wants sound progress – not temporary will-o'-the-wisp, inflationary prosperity.

• • •

IDEAS ON LIBERTY

## *Fido, the State*

How PLEASED we were with little Fido! His very presence, and an occasional growl, left us free to pursue our interests, unmolested by thieves or other human parasites.

But Fido is still growing, and more and more shows streaks of meanness toward us. He's eating us out of house and home, consuming more than ever had been taken by thieves. And worse yet, he considers himself our lord and master, so big and powerful that we've no idea how to put him back in his place.

Now we see where we made our mistake. Knowing little about watchdogs, we had bought ourselves a cub lion!

L. E. R.

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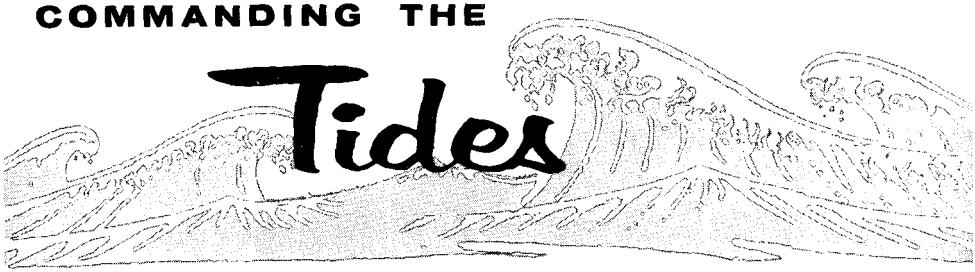
# COMMANDING THE Tides



**By David Smyth** • We do not expect the government to be able to repeal the laws of nature; why then do we expect it can repeal the laws of economics?

## THE LAWS OF NATURE

MANY OF US who live in Buenos Aires have only to look out of our windows to see the vast expanse of the River Plate stretching away to the horizon. All of us are aware that the waters of this great estuary, which extends 170 miles inland from the Atlantic and stretches 140 miles wide at its mouth, never stand at one unvarying level. Restlessly, ceaselessly, the water level rises and falls every day.

If somebody should say to us that this variation is an awful nuisance and ask why nothing is done to keep the water at a constant level, we would answer that the varying water level could only reach the final state of rest he desires if the world were timeless and ageless, standing motionless and changeless through all eternity. But in a world like ours subject to time, motion, and change, nothing can ever escape the general flux of things. The water level is constantly being altered by the interplay of natural forces – the ebb and flow of the tide, for example, and the varying volume of water pouring into the River Plate estuary from its tributary rivers.

These changes are not capricious or arbitrary. They are linked together in a chain of cause and effect by irrevocable natural laws. When the attraction of the moon is stronger, the water level rises; when it is weaker, the level falls. Nevertheless, the water level is constantly tending toward the final state of rest he considers so convenient; and if it were no longer affected by the operation of natural forces, it would in fact achieve

*Mr. Smyth works with the Centro de Difusion de la Economia Libre, a libertarian organization in Argentina with aims similar to those of the Foundation for Economic Education in the United States.*

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this permanent level of its own accord. But while it continues to be so affected, we must accept the variability of the water level as inevitable because it is simply not in our power to repeal the laws of nature.

### *Fluctuating Tides*

But suppose that your questioner is a really persistent sort of fellow and replies that if the varying water level were really caused by natural laws, then its variation could be predicted in advance with absolute certainty, just as in chemistry and physics the same cause must inevitably bring about the same effect. Here, he alleges, it is not so because sometimes the water level varies only a few inches, other times several feet, and occasionally there is a flood which drives the people living in the low-lying riverside suburbs out of their homes and confines the people up in the delta to their stilted houses. You cannot, he says, explain such irregular variations by the regular phases of the moon or the fairly constant seasonal variation of the inflow from the tributary rivers. These people, however, are seriously harmed by such floods, so why doesn't the government do something to protect them?

As a matter of fact, this is an easy one to answer. In the first place, you can tell him that the irregularity in the variation of the water level is due to a natural force of which the intensity is irregular. The height of the River Plate answers very promptly to changes in the wind. When a southerly or easterly wind prevails, the water piles back up in the estuary, and consequently the level rises. When a northerly or westerly wind prevails, the water flows down the estuary faster than it can be replaced, and consequently the level falls. The fact that we cannot predict the rise or fall of the level with absolute precision does not mean that it happens arbitrarily; it simply means that we cannot accurately predict the precise force, direction, and duration of the wind, and consequently its exact effect on the volume of water pouring in from the tributary rivers. If a strong southeast gale blows up and continues for several days, there will inevitably be a flood, and there is nothing the government can do about it. Obviously, the government cannot decree that any wind above a certain intensity is henceforth forbidden. On the other hand, it is a simple matter of observation to see that the wind can only drive the water level up just so far before its force and its effects are counteracted by other natural forces, and that as soon as this happens,

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which in all recorded experience of floods never takes more than a few days, if left free to work itself out, the water always subsides to its usual level.

But your questioner, as we have noted, is an obstinate sort of fellow. He replies that while you are so interested in the causes of the floods, you are heartlessly ignoring their effects – the people driven out of their homes in the low-lying suburbs and marooned on their stilted houses up in the delta. He, on the other hand, has a social conscience and is interested only in preventing such misfortunes befalling these unlucky people. "If I were the government," he mutters, "I'd pass a law or something."

### Flood Control

Suppose now that this fellow ignores your warning that the laws of nature are irrevocable and that anything the government does to try and alter their effects without first studying their causes and accepting such causes as unrepealable laws can only bring about more harm than good. Suppose that by some incredible chance he should succeed in convincing the electorate that he can repeal the laws of nature, and that he thereupon enacts his law forbidding floods in Buenos Aires. The next time a strong southeast gale blows, there will be a flood, law or no law, and that will be the end of that. But he may take it into his head to pass a law saying, "The government hereby guarantees that no more damage will be caused by floods in Buenos Aires." Then there is no end to the follies he will embark on and the blunders he will commit as long as he refuses to recognize that the effects he wants to eliminate are due to natural laws unrepealable by any government.

He will exhaust the public treasury in building a dyke 170 miles long across the mouth of the River Plate, so as to stabilize its level. He will then discover that the tidal variation thus eliminated is only a couple of feet. He will also discover that he is damming up the inflow of water from the tributary rivers and that his dyke will raise the level of the River Plate estuary to almost any level he chooses to block the inflow of water. So far from eliminating occasional floods, his dyke will thus *guarantee a permanent inundation.* He will then put enormous flood gates in his dyke and regulate the rate of outflow so as to maintain a constant water level – and the next time a southeast gale blows up, it will pile this water back up the estuary just as it did before. He will then run a whole series of inner dykes across the estuary to

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block the path of the wind-driven backwash. And when this doesn't work satisfactorily, he will build a wall twenty feet high round the entire coast line.

But by this time the farmers inland will be objecting that if the government is spending such enormous sums of public money – to which they have contributed – on protecting Buenos Aires from floods, why does it not spend a cent on protecting them from drought, cyclones, hailstorms, erosion, and so forth and so on? There is not a person in the country who is not apt to be harmed by the ever-changing balance of natural forces and who will not claim government protection from their ill effects.

There will then be no end to the demands made on the government for protection from every passing natural phenomenon, and there will be no limit to the government's follies and bungling and compromising and fruitless meddling and squandering until the total bankruptcy of the country demonstrates once and for all that no government of mortal men can ever repeal or ignore or modify the irrevocable laws of nature.

## THE LAWS OF ECONOMICS

MANY OF US who live in Buenos Aires have only to look out of our windows to see the vast pampas of Argentina stretching away to the horizon. All of us are aware that the prices of goods in this great country, which extends 1,000 miles from east to west and stretches 2,500 miles from north to south, never stand at one unvarying level. Restlessly, ceaselessly, the price level rises and falls every day.

If somebody should say to us that this variation is an awful nuisance and ask why nothing is done to keep prices at a constant level, we would answer that the varying price level could only reach the final state of rest he desires if the world were timeless and changeless, standing motionless and changeless through all eternity. But in a world like ours subject to time, motion, and change, nothing can ever escape the general flux of things. The price level is constantly being altered by the interplay of economic forces – the ebb and flow of demand, for example, and the varying volume of goods pouring into the market from the sources of production.

These changes are not capricious or arbitrary. They are linked together in a chain of cause and effect by irrevocable economic laws. When the attraction of demand is greater, the price level rises; when it is weaker, the level falls. Nevertheless, the price level is constantly

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tending toward the final state of rest he considers so convenient; and if it were no longer affected by the operation of economic forces, it would in fact achieve this permanent level of its own accord. But while it continues to be so affected, we must accept the variability of the price level as inevitable because it is simply not in our power to repeal the laws of economics.

### *Fluctuating Prices*

But suppose that your questioner is a really persistent sort of fellow and replies that if the varying price level were really caused by natural laws, then its variations could be predicted in advance with absolute certainty, just as in chemistry and physics the same cause must inevitably bring about the same effect. Here, he alleges, it is not so because sometimes the price level varies only a few cents, other times several dollars, and occasionally there is a steep rise which drives people in the lower income groups to stop buying and restricts buying by people in higher income groups. You cannot, he says, explain such irregular variations by regular variation in demand or the fairly constant variation in the supply from the sources of production. These people, however, are seriously harmed by such steep rises, so why doesn't the government do something to protect them?

As a matter of fact, this is an easy one to answer. In the first place, you can tell him that the irregularity in the variation of the price level is due to an economic force of which the intensity is irregular. The height of the price level answers very promptly to changes in supply and demand. When a strong demand prevails, a backlog of unfulfillable orders piles up in the market, and consequently the price level rises. When an abundant supply prevails, goods flow into the market faster than there are orders for them, and consequently the price level falls. The fact that we cannot predict the rise or fall of the level with absolute precision does not mean that it happens arbitrarily; it simply means that we cannot accurately predict the precise force, direction, and duration of the demand, and consequently its exact effect on the volume of goods pouring in from the sources of production. If a strong demand arises and continues for some time, there will inevitably be a steep rise in prices and there is nothing the government can do about it. Obviously, the government cannot decree that any demand above a certain intensity is henceforth forbidden. On the other hand, it is a simple matter of observation to see

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that the demand can only drive the price level up just so far before its force and its effects are counteracted by other economic forces, and that as soon as this happens, which in all recorded experience of rising prices never takes more than a short period if left free to work itself out, the prices always subside to their usual level.

But your questioner, as we have noted, is an obstinate sort of fellow. He replies that while you are so interested in the causes of the price rises, you are heartlessly ignoring their effects – the people forced to stop buying in the lower income groups and restricted in the higher income groups. He, on the other hand, has a social conscience and is interested only in preventing such misfortunes befalling these unlucky people. "If I were the government," he mutters, "I'd pass a law or something."

### *Price Control*

Suppose now that this fellow ignores your warning that the laws of economics are irrevocable and that anything the government does to try and alter their effects without first studying their causes and accepting such causes as unrepealable laws can only bring about more harm than good. Suppose that by some (not so incredible) chance he should succeed in convincing the electorate that he can repeal the laws of economics, and that he thereupon enacts his law forbidding price rises in Buenos Aires. The next time a strong demand blows there will be a price rise, law or no law, and that will be the end of that. But he may take it into his head to pass a law saying, "The government hereby guarantees that no more harm will be caused by price rises in Buenos Aires." Then there is no end to the follies he will embark on and the blunders he will commit as long as he refuses to recognize that the effects he wants to eliminate are due to economic laws unrepealable by any government.

He will exhaust the public treasury in setting up a price control bureau with 170 separate departments across the entire market, so as to stabilize its level. He will then discover that the variation thus eliminated is only a couple of points. He will also discover that he is damming up the inflow of goods from the sources of production and that his price control bureau will raise the level of prices to almost any level he chooses to block the inflow of goods. So far from eliminating occasional price rises, his bureau will thus *guarantee a permanent increase in prices.* He will then put enormous stabilizers in his price control system and regulate the rate of production so as to maintain a constant price

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level – and the next time a sudden strong demand arises, it will pile up a backlog of unfulfillable orders in the market just as it did before. He will then run a whole series of price ceilings across the economy to block the path of the demand-driven backlog. And when this doesn't work satisfactorily, he will put armies of price inspectors 20,000 strong round the entire city limits.

But by this time the population of the rest of the country will be objecting that if the government is spending such enormous sums of public money – to which they have contributed – on protecting Buenos Aires from high prices, why does it not spend a cent on protecting them from monopoly, competition, lack of capital, lack of demand, high interest rates, low dividends, insufficient wages, and so forth and so on? There is not a person in the country who is not apt to be harmed by the ever-changing balance of economic forces and who will not claim government protection from their ill effects.

There will then be no end to the demands made on the government for protection from every passing economic phenomenon, and there will be no limit to the government's follies and bungling and compromising and fruitless meddling and squandering until the total bankruptcy of the country demonstrates once and for all that no government of mortal men can ever repeal or ignore or modify the irrevocable laws of economics.

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## *The Way of Persuasion*

WHEN WE HEAR a statesman say that no man has a right to be wrong, when we pay those who rely on the method of force the compliment of imitating them as we do when we say that we cannot combat totalitarianism except by totalitarian methods, when in the professed interests of security we are in danger of destroying the way of life which we want to protect and thereby of undermining the national security which we wish to safeguard, freedom and science are in danger and it behooves their friends to gird on their armor. The way of persuasion is hard and long but it is the only way of hope for a tortured and perplexed humanity; for we cannot bring about a desirable state of affairs by means which are inconsistent with the end which we pursue.

A. MACBEATH, *A Plea for Heretics*

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H. Armstrong Roberts

# A WOMAN'S VIEW of *Farming*

MRS. H. L. WITMER

*These heartening comments by the chairman of the Women's Committee of the Iowa Farm Bureau Federation were presented at a banquet in Washington on April 15, 1958, for members of the Iowa congressional delegation.*

WE IN THIS ROOM, with the exception of our guests, are actively engaged in farming. We know what the world looks like just before sunrise, and we know what it is to sit on a bale of straw through a long cold night to help save the life of a little calf or of a litter of pigs. We know the feel of soil in our hands before it has become warm in the spring, and we know what the hot July sun feels like beating down on the back of a working person.

Most of the tractors on our farms are lady broke. We know what is being planted in the northeast 40 this spring, and we know whether or not the new alfalfa seeding came through the winter.

We know what it is to be tired and discouraged and the next thing to broke, but we also know the thrill of being close to nature, of working with live animals, of producing with our own hands and the help of God, the food that is necessary to the world. And we know what it is occasionally to hit the market when it is up and get more for a product than we had anticipated.

We believe in farming as a family operation, and we wish that every young person who wants to make agriculture his career could have the opportunity to do so.

Of course, we are concerned about farm income, but we are even more interested in the future



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we are bequeathing to our sons and daughters and to their sons and daughters.

Are we going to pass on to them a business hamstrung by ineffective controls and regulations?

Will the freedom of farmers to farm at their best disappear as so many of our freedoms have disappeared, almost unnoticed?

Will they have the opportunity to live in a great democracy as we have, the right to work and play, to win and lose, the right to plan their own future according to their individual desires and abilities?

Things are happening in Washington which we feel will destroy these freedoms if they are not checked.

It has become the great American pastime to gripe, and we find ourselves criticizing as well as praising our government.

Most of us are not educated in economics, but we do not believe that it takes an expert to know that none of us can go on year after year spending more than we earn, and that when certain members of the family keep demanding more than the budget will bear, either something has to give or those members will have to get busy and figure out how to get what they want for themselves, or do without. We know we must constantly cut corners and manage better.

We are not half as afraid of Russia's might and productive power as we are of the panic displayed by many in government and many citizens with every new blast of propaganda.

How often have you heard these statements:

"Russia is outstripping us. Let the government take over the education of our scientists."

"The government must build more roads."

"We must set up trade barriers to keep out competitive foreign goods."

"We have to have federal aid to education. We can't educate our kids ourselves."

And the latest: "Russia has produced more hogs than America."

Our tremendous inflationary spiral has slowed up. We are in trouble.

We are being out-propagandized by Russia.

We are, because the American people pick up and echo in mournful voices the latest claims.

We are smart enough to know that you who represent us can give us nothing which we have not first given you and that in the transfer from us to you and back again we lose a lot; and we know that if you furnish the money, you will want to help us make decisions, and we will thus lose a bit more of our freedoms.

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If we are real honest with ourselves, we know that so long as we have the large sums of money we spend on cosmetics, cigarettes, soft drinks, liquor, and the like, we should be able to finance our schools.

We know that every bureau that is set up, even on the temporary basis, is likely here to stay and make big government even bigger.

We want you to know that we will do all we can to help you represent us in a way that will at least check the loss of our freedoms.

We believe that you want to keep America the great free country she has always been.

We believe in America and the American way of life.

Agriculture is our business and farming is our future. With adjustments and changes brought on by a rapidly changing world, we believe that the family type farm is here to stay.

And we believe that there's life in the old girl yet, if we take away the sedatives and tranquilizers and give her the stimulus of freedom to decide, competitive markets, and foreign trade.

This is the future we hope to bequeath to our children, and we will help you in any way we can to accomplish this goal. • • •

IDEAS ON LIBERTY

## *Get the Government Out!*

QUESTIONNAIRE returns from 2,016 readers of *Farm and Ranch* magazine, reported in their July 1958 issue, show the following results:

72.2% said: Cooperatives *should* be taxed, nationally and locally, on same basis as corporations.

63.2% said: Postal rates *should* be raised (including rates on magazines) to enable the Post Office Dept. to break even.

73.1% said: Government *should not* guarantee support prices at 90 to 100 per cent of parity and control production on major crops.

87.5% said: Farming *should* return to a free supply-and-demand system, as soon as possible, with minimum government control.

85.0% said: Public utilities *should* be developed and operated by private companies instead of by the government.

80.9% said: States *should* run their own schools without interference from federal government, and federal aid to schools *should* be stopped.

75.3% said: Federal aid to states means extravagance, high taxes, waste, and federal control. It *should* be stopped.

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# WHAT'S IN A NAME?

R. C. McCormick

As you visit India, you soon become cognizant of the fact that Nehru is a virtual dictator. You read from Nehru's pen of his fascination for communism as the only "scientific" plan of living known to him. He does not believe in the sanctity of property though history has proven over and over that whenever a government takes from a man his well-earned property, it also takes away his freedom.

If you are fortunate, as I was, your traveling companion might be a former ruler of a large area in India, an intimate friend of the Queen of England and of Nehru himself. This man might tell you how he had questioned Nehru about allowing the Communist party to exist openly in India. (One state today is managed by the communists, by the precarious margin of one vote.) Nehru replied to the effect that communism is an emotion sweeping the world and that it would be poor politics to try to exclude it from India by force. He would hope to discredit communism by devising a more "scientific" plan for social living.

Nehru was highly successful as the amalgamator of India. But, as the dictator of India, his is a hand of putty. Politicians in high places have been woefully dishonest, but few are punished or even dismissed. Pay-offs are rampant. A person has no assurance that a parcel would be delivered safely through the mail. The tiger skin you wish tanned must be taken personally to the tanner in a distant town. A small gift to be sent to a friend is first machine stitched in a burlap bag, then a row of hand overcasting around the bag, after which the merchant wax-seals the corners — all to discourage theft of the contents. The only phrase to describe such a situation is *dishonest government.*

You wish there were some way to explain to Nehru and his supporters that it doesn't necessarily discredit communism to practice all of its evils under some "more scientific" label. You can steal the communism machine and paint it a different color. But, strip off the paint, and it is the same machine, built to direct the energies of all men by force. • • •

*Mr. McCormick, businessman from Wichita, recently completed a trip around the world. This article records some impressions of India.*

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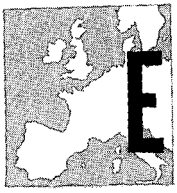

SOME COMMENTS ON

# EUROPEAN ECONOMIC INTEGRATION

WILHELM ROEPKE

A generation ago, Alfred Marshall said that it is difficult for an economist to be at once a good patriot and to have the reputation of a good patriot. Economic sense urges the trained mind to seek national welfare in measures that are sure to be rejected by superficial patriots; enlightened patriotism, for instance, often calls for free trade rather than national barriers. What Marshall said is true still; and more, it is not easy for an economist both to be a good European and to have a reputation as a good European.

Mere enthusiasm will not suffice to accomplish the desired European unity. Enthusiasm, true enough, is indispensable for overcoming the obstacles that still are in the way of a united Europe, but here patriotism alone is not enough. European patriotism – if it is not too soon to use this phrase – needs to be guided by good sense, lest damage be wrought by a well-intentioned but misguided impatience to see things done. This applies especially to the economic realm; and this is why the present writer, an economist who has sympathy and understanding for the efforts toward European economic integration, feels impelled to put the case of economic sense without a sugar coating. In doing so, I do not intend to discourage the political enthusiasm at work in the European endeavor; but I indulge the hope of serving the best interest of Europe by contending against errors and illusions.

### *Regional Free Trade: a Two-Faced Proposition*

Several questions arise, and are put here in order of their importance. The most important is this: In what circumstances will the

*Professor Roepke teaches at the Graduate School of International Studies, the University of Geneva. This essay was a lecture to the Tenth Anniversary Meeting of the Mont Pelerin Society at St. Moritz, Switzerland, and was first published in* Modern Age, *Spring 1958.*



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contemplated common market – whether it be the economic and tariff union of "Little Europe" (the six Messina countries) that is meant by the phrase, or the looser "Free Trade Zone" of all OEEC countries – bring about the expected benefits from a more advantageous trade, a more advanced division of labor, and a general European increase in wealth? To ask this question is to correct the widely-held unqualified view that these benefits are to be expected in any event; and that any *regional* removal of tariff barriers, in liberating trade and increasing wealth, would differ only in quantity (not in quality) from a *general* abolition of trade barriers. In point of fact, this view is quite erroneous, and it is of the greatest importance that this should be recognized.

For one thing, it is quite clear that the expected benefits will be the greater the more countries join in the contemplated exercise. Since the more ambitious proposition, that of an economic and customs union, is even in the most favorable circumstances not likely to be achieved over the whole geographical area, a Free Trade Zone could well cover it (being a mere preference system without a unified external economic policy), it stands to reason that the *less ambitious scheme has decided advantages* over the more ambitious one.

Moreover, it is obvious that the benefits of an internal trade liberalization are offset to the extent to which barriers are erected against third countries. The smaller a country and the greater its dependence on foreign trade because of density of population and intensity of economic activity – the rule in Western Europe – the more such a country will be subjected to a wholesome compulsion to encourage free international trade relations and to moderate its own protective policies. Thus Switzerland, the Netherlands, and Belgium are known as low-tariff countries. If now several such countries unite to form a common economic area, there is a certain chance – which is yet to be examined in detail – that a more advanced division of labor and economies of scale will help to increase productivity in that area. Against this chance, there is the danger that economic nationalism, which is more virulent than ever, will make tariffs and other barriers against the outside world go much higher.

#### Possible Disadvantages

Where such a disadvantage outweighs the benefits – and this possibility is anything but an academic concern in Western Europe

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– the whole scheme may prove to be a catastrophic misfire. Terms like "Common Market" and "Free Trade Area" become catchwords which serve to concentrate our attention on the internal goings-on and – similar to the catchword of "Empire Free Trade" which Lord Beaverbrook used to propagate a closed Commonwealth economy – excuse the suspicion that it is their purpose to serve as a red herring or to camouflage the whole thing. What happens if the external tariff of a common market is higher than the previous national tariffs of a number of participating countries is that the internal "common market" (if, indeed, it is real and not itself partly fictitious) comes into existence at the cost of a "less common" external market.

### *The Line of Least Resistance*

It is for several reasons very much to be expected that a customs union will adopt a common tariff whose rates are higher than they used to be on national levels. The ever-present danger of increased external barriers is particularly grave in cases where one of the uniting countries is greater than most others, of considerable political weight, and with a protectionist tradition, and where this country refuses to join unless a high common tariff – the natural line of least resistance – is agreed upon. This is exactly what is happening, unfortunately, in the negotiations about the Common Market of the Messina countries, with France as the country which pushes the common tariff up. In consequence, the Netherlands, Belgium, and Germany, which had raised its tariffs – some excessively, only a few years ago – must accept not only considerably higher protection against third countries but even tariffs for raw materials which have so far been duty free. If this danger, with its very serious implications, cannot be averted, it would be a lot better to drop the whole scheme of a common external tariff, and try to achieve European economic integration solely by the OEEC's method of establishing a "Free Trade Area," despite the embarrassing complications (continuance of Intra-European frontier controls, certificates of origin, and the like) which this less ambitious system would entail.

### *Internal Freedom—External Seclusion*

A third point requires consideration if one tries to drop wishful thinking and get a sober idea of the actual possibilities of European economic integration, a point, it is true, which is a lot more difficult to render plausible than those made so far. At first sight

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it looks like a paradox: Even without external barriers, regional free trade may disturb rather than help international trade. The idea seems less paradoxical as soon as we realize that any system of regional free trade – be it a customs union or a preference system – is two-faced; while it means internal freedom, it brings about external seclusion. While a producer in country A, who so far had to overcome the tariff barriers of country B, is now able to compete freely with the producers there, a producer in country C, which remains outside the free trade system, may have to give way to country A's producer in country B's market as he has to overcome a tariff barrier which does not exist for the latter. While one door is opened, another is closed.

### *Gains vs. Losses*

The one thing that matters is thus whether more doors are opened than are closed, whether or not the effect of liberalization outweighs the effect of seclusion. Let us take a concrete example. Let us suppose a common market is established – which Switzerland could in any case join only as a member of a Free Trade Zone (a point made recently in the excellent series "Switzerland and the European Economic Integration" [*Neue Zürcher Zeitung*, Nos. 331 and 342 of February 5 and 6]) and the effect is that the Swiss watchmaking industry can enter into free competition with German and French watchmakers in the German and French markets. So far, so good. In this event, those two competing countries will probably have to put up with a considerable curtailment of their watchmaking industries in favor of Switzerland, while in Switzerland the same will happen to other industries. These shifts of industries to the most profitable location, though painful to the affected producers, bring about that increase in over-all productivity which is the purpose of any economic integration. It is, however, quite a different proposition if one Swiss producer found it more profitable, in the past, to buy crude silk from Japan rather than from Italy, but is now compelled to resort to a less advantageous source of supply, as under the new arrangement Japanese silk would be subject to a duty while Italian silk would not. In this case, regional "free trade" would result in the substitution of a less favorable for a more favorable flow of trade. International division of labor would be less advantageous than before, and "free trade"would be little less than the facade of a very clever protectionism.

The more the average benefits

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to be derived from a customs union promise to outweigh its setbacks, the greater will be the anticipated unshackling of international trade and the resulting improvement in the international division of labor. But if things work the other way, the fusion will be a mere make-believe and quite a disappointment. Which turn events will take depends on the circumstances, which in the case of the present European integration require very thorough examination – more thorough than the heat of preparations so far permitted.

The over-all balance of the integration, when seen from this angle, will be the more favorable, the lower the external tariffs are. It has already been mentioned that the contemplated common market does not look promising in this respect, and this will be hardest on those countries which have particularly close trade relations outside the common market area (e.g., the Netherlands).

### *Compatibility of Participants*

Another important feature which will decide whether the effect of freedom or that of seclusion will prevail is the economic structure of the countries involved. If there is a great similarity, so much the better, for then it will be likely that "inside" producers will take the place of other, weaker "inside" producers and not supplant equally or more efficient "outside" suppliers; in other words, there will be good prospects for an improved international division of labor. If, however, the national economies are complementary rather than similar, the outlook is not so bright, as witness the former economic union of France and Indochina, under which Indochina had to buy the more expensive industrial output of France instead of getting cheaper supplies from Japan. If the sense and purpose of international trade is to allow for a more advanced division of labor, it stands to reason that a customs union of complementary economies will result in an artificial and wasteful distortion of the already existing international division of labor, whereas a union of competing economies permits a regrouping of production which will ensure the desired higher efficiency that an improved international division of labor is expected to bring about.

As far as this is concerned, European integration certainly seems promising. But there is something else to be taken into account: Even in favorable circumstances a fusion will be trade-diverting rather than trade-creating if the abolition of tariffs is riddled by exemptions, with the result that goods which are in any case

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bought from third countries are duty-free, while goods produced inside the union's territory remain protected. As trade-creating tariff reductions will hurt inside producers, while trade-diverting reductions operate against outsiders, it is only to be expected that the items which will be freed in the course of a step-by-step abolition of tariffs will be so selected that the over-all effect is trade-diverting rather than trade-creating. If a customs union is to fulfill its purpose, namely, to increase the over-all gross regional product, the abolition of tariffs must hurt, and that is precisely why it is so difficult to get it done. It follows that a common market in Europe can in good faith only be advocated if it provides for as nearly as possible a complete "community." Otherwise, a general reduction of tariffs for the benefit of all supplier countries would be preferable.

A nearly complete abolition of tariffs, without which a customs union will not yield its full economic benefits, is for political and psychological reasons very difficult to achieve; in addition to this it is an economic *tour de force* which has little to recommend it. On the other hand, it has been shown that a too timid advance will fail to produce the full economic effect of the exercise. This is the dilemma of any regional (as against a universal) abolition of tariffs. To mitigate hardships, a very complicated apparatus has been designed at Brussels with the purpose of assisting the necessary adjustments in the affected industries. Apart from the general consideration that such a device will add to the already strong "planning element" in the whole setup, the experience so far gathered in the coal and steel community with such a "death-bed insurance" is not exactly encouraging.

### *Other Major Problems*

As any customs union has two faces, it becomes understandable why this is a proposition in which both free-traders and protectionists hope to win their case. Who actually wins depends, as we have seen, on the way the union is set up, and it is for this very reason that our judgment of the economic merits of the contemplated common market – bound up as they are with the political merits and demerits – must be kept in abeyance. We will not, however, deny that there seems to be more ground for pessimism than for optimism. If the common market is to fulfill its promises, if it is to be a real step ahead toward a genuine and productivity-increasing integration of the various national economies, then it must meet require-

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ments which are far above what has been planned to date and which probably have little chance of being met anyway, as they exceed the limits of what can possibly be done in a customs union. If they cannot be fulfilled (particularly the requirements of low external tariffs and a far-reaching tariff reduction), it would be better to confine the present efforts to the less ambitious scheme of a regional preference system (Free Trade Zone) or to devote the more energy to the liberalization of trade so far pursued in OEEC and GATT. No less strange than the fact that preference systems and customs unions are a field where economic nationalism and internationalism meet, is another: the project of the common market is a combination of tendencies toward both a market economy and economic planning.

***Protecting the Inefficient***

The story of the establishment of the Coal and Steel Community repeats itself; it is as necessary now as it was before to be watchful lest the "common market" turn into a "common *dirigism*." It has already been stressed in another contact that this danger – particularly as regards a European control of investment – must not be underrated. Here as elsewhere, political enthusiasm may well lead to disregard for economic sense.

Another danger became apparent when the French demanded a "harmonization" of labor cost, in particular welfare burdens, to precede the actual setting up of the common market; in other words, all other countries were asked to hoist their labor costs (wages and welfare expenditure) up to the French level. It should not be necessary to point out that this demand for an a priori harmonization of labor costs is incompatible with the most elementary conclusions of political economy and is for its economic insight on a level with the request of American protectionists to be shielded against imports from countries with lower wages by a tariff that makes up the difference. No responsible economist has ever claimed that free trade presupposes equal costs of labor (or capital), as this is not even true in a national market. On the contrary, it is free trade that will reduce existing differences of labor and capital cost. This applies even where free movement is limited to commodities, and will apply even more when the migration of manpower and the flow of capital are just as free; this, of course, marks the ultimate highest degree of integration which Europe, with all its good intentions, will be able to reach only after long development.

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Let us hope we would wrong the propagators of this French position, were we to assume that they are lacking this elementary insight. The problem is not quite so simple. The cost of labor (wages and social benefits) in France, which today appears higher than in other countries (on the basis of the existing rates of exchange) does not indicate a corresponding superiority in productivity; it is even less a measure of productivity than in other countries. French wages and social benefits have rather been pushed up and out of proportion with productivity by political and social forces, particularly in the more recent past, with the result that they have become a spearhead of inflation, as in other countries, only more so. Since France has thus become the country where this process has been going on with most momentum, inflationary pressure there has become stronger than elsewhere, so that the country suffers from a chronic and quite severe balance of payments disequilibrium and its gold and exchange reserves flow to countries with a lower inflationary pressure, in particular Germany. How bad this is will be seen from the fact that the situation cannot be even tolerably redressed by a system of import obstacles, deliberalization, and export subsidies.

### *The Basic Problem Remains*

Thus the French demand for a "social harmonization" really means something quite different. For one thing, it is guided by the quite correct conclusion that French wage and welfare policies, highly inflationary because particularly oblivious of economic reality, have created a serious disequilibrium in the national economy which must be put right if there is to be anything like a genuine common market. On the other hand, it implies that equilibrium is to be restored along the line of least political resistance which happens to be at the same time the line of least economic sense. The most reasonable and fair procedure would be for France to adjust its fictitious rate of exchange to the inflated internal cost-and-price structure – in other words, to devalue the franc in the face of all political and rhetorical make-believe, to abolish the system of import obstacles and export aids – which will become unnecessary – and forthwith keep wage rounds and social benefits within reasonable limits. Instead, the spokesmen of France insist that there will be no devaluation, that the system of import obstacles and export aids must be retained to the maximum extent even in a common market, and that their own wage and welfare policies must be imi-

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tated by other countries which have so far been more moderate in sinning.

What this means should be quite clear. It means that the indispensable minimum of an international balance in the union is to be secured by making the highest inflationary pressure – the "marginal pressure" of inflation, as one might call it – the standard for all. Thus "social harmonization" means in the last analysis "harmonization of inflation." This would set a precedent for all later instances in which one single country would be permitted to dictate the pace in inflationary wage and welfare policies.

### *An Ugly Skeleton*

This example is highly instructive. It indicates the direction in which a solution will be sought in the future common market for a general problem which has from the very beginning been the central problem of European economic integration, a most uncomfortable subject which has again and again been ignored or pushed beneath the surface only to come up again, like a dead body one throws in the river in the fond belief that that is the way to get rid of it. It will not help either to tie stones to it, not even as weighty ones as the European Payments Union. It is again significant to note that this ugly skeleton has been passed over in eerie silence during the recent common market negotiations.

### *Monetary Discipline Needed*

It need not be explained to those who know the story that the real question is this: How can free trade in Europe be conducted with countries which, by their economic policies, allow an inflationary pressure to develop that will disturb the balance between the various national economies and thus create conditions which are incompatible with the restoration of free currency convertibility? That this problem has not been solved, not even by the European Payments Union will be seen from the fact that the EPU can only keep itself going by tolerating contraventions against the principle of free trade, of which those of France are the most serious; by a continuous flow of gold and foreign exchange from high-pressure to low-pressure countries, and by the not unlimited compulsory credit granted by those countries which have external surpluses; the most important creditor country being Germany. There just is no ersatz for convertibility, or rather for the conditions which alone render the free convertibility of currencies possible, viz., equal monetary discipline of all countries, unless, of course, a hardly tolerable

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amount of obstacles to trade or else freely fluctuating rates of exchange are preferred.

In trying to create today a common market – even for capital – in Europe, and in considering it as substitute for the listlessly abandoned aim of convertibility, one should realize that it is impossible to have all of the following three things: free trade, national differences in monetary discipline, and stable rates of exchange. One of them must be sacrificed, as will eventually be found out, and we can only consider which combination is most advisable and likely to be achieved in practice. In other words: What is the best thing to do and what will probably happen if there are serious balance of payment difficulties within the common market? Should uniformity in monetary discipline be aimed at and is it likely to be achieved? Or should a restoration of the balance rather be sought in an adjustment of rates of exchange?

### *Little Prospect for Sound Action*

This should be the subject of a long and useful discussion. However, there can be hardly any doubt as to what would be desirable and what is likely, and it is unfortunately already quite clear that that will not be one and the same thing. It is most devoutly to be wished that a solution be sought in an equal and high monetary discipline by all parties who would take up a determined fight against the inflationary tendencies of our time and thus get ready for convertibility. But this is unfortunately not likely to happen. Now that, furthermore, the latest example of Germany and France has shown how hard it is to get a country to revalue or devalue its currency, even if all circumstances speak for such a step, it is not likely either that the solution would be sought in an adjustment of rates of exchange which would rank second in the order of desirability.

### *Taking the Brakes Off Inflation*

If, therefore, the common market is not to become a farce but a serious reality without a new "see-saw of liberalization," the most likely thing to happen – in particular if we think of France – is a solution sought or at least accepted along the line of least political and social resistance, namely, a general adjustment to the highest existing degree of inflation and to the lowest existing monetary discipline. That is the road on which we are already traveling, albeit with brakes which will then disappear. Just as there is a danger that the common market will give rise to common regimentation, with so much less ex-

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ternal "community" of markets, there is another danger that the outcome may be a common inflation.

The problem of European economic integration should not make us forgetful of the existing threat of inflation. Fortunately, brakes and counter-forces are not lacking so far. As Dr. M. W. Holtrop, president of the Bank of Netherlands, recently pointed out in a remarkable lecture at Brussels, the most effective and anti-inflationary impulse comes from the fact that a country which goes rather too far in its lack of monetary discipline will run into a balance-of-payments deficit and external illiquidity as a direct consequence. The smaller a country is – let this be repeated – the more it must rely on foreign trade, and the less it is relieved from its responsibility for consequences of its policies, the more effectively the brake will operate. The credit arrangements of the European Payments Union served rather to weaken this brake to some extent. The common market, as it seems at present to take shape, threatens to put it altogether out of operation. Who dares take this lightly? • • •

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# Happiness

HUGHSTON M. MCBAIN

YOU AND I share with all mankind a common want – a common quest. It is the search for happiness. Buddhist, Christian, Mohammedan – we all pursue it in our own fashion.

If and when we reach another planet inhabited by other beings, I'm sure we'll find they, too, seek happiness – and probably the same kind of happiness; for this search for happiness is reaching for heaven.

But how define it? How achieve it? Philosophers have written about it; great thinkers have propounded its mysteries across the many years.

Why, then, dwell upon it further? Because relatively few of us seem to attain much. I wonder why?

The possession of money does not bring happiness. Neither do power or social position, grandeur or "security." I should like to suggest a relatively simple approach to happiness. It has worked for me and many others that I know. Perhaps it may help you.

The formula is not complicated. I believe that happiness is attained by overcoming obstacles to achieve any worth-while, constructive goal. This may sound oversimple. And yet, all great principles in essence are simple.

If you stop and think, you will discover that you have yourself often demonstrated my proposition – winning a childhood game, passing a difficult test, or doctoring a sick puppy back to health – these are simple illustrations. Each brought a measure of happiness through achievement in the face of difficulties.

Later on in life perhaps you won the girl of your choice when you thought you hadn't a chance, or earned a business promotion over hard-fought opposition. Each initially represents a struggle, a moment of fear, of doubt, or discouragement – and then, if you persist – realization – and happiness!

That is why we should seek happiness through the careful selection of worth-while goals, and then go after them relentlessly. Such an approach is always possible where we have freedom of choice. I would hesitate to try it under socialism or communism where individual liberties are denied.

Some of these goals will be large

*Mr. McBain, Chairman of Marshall Field & Company, retired, offered these ideas on happiness before the Chicago Sunday Evening Club, April 27, 1958.*

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ones and take a long time to achieve – a lifetime perhaps. Others will be simple and quickly reached. We need to have both kinds. For the realization of happiness rests less on the size of the goal chosen than upon its worthiness and the effort we expend.

In choosing our objective, large or small, no realm must be excluded. Projects may include the spiritual, the artistic, business, family, community, friendship, and countless others.

One of the goals that gave me great happiness when I reached it took 14 years of concentrated effort in the face of problems that seemed insurmountable. In fact, my 35 years of business life here in Chicago was mostly a series of problems.

Upon looking back, I find that my happiness fluctuated with the energy and determination I brought to their solution. When I faced up to problems, analyzed them carefully, and finally solved them – then I achieved true happiness. I believe this is so with everyone.

Not all of us can be a Schweitzer, an Edison, or a Henry Ford, a Salk, a Lincoln, or Madame Curie. Each of them contributed much, and each achieved a measure of happiness in the doing. We lesser men and women can do likewise – no doubt on a smaller scale, but no less importantly to ourselves and for others.

The very fundamental of happiness is that its possession comes from the fullest realization of self in terms of achievement – and most often in behalf of others.

This was Christ's teaching, appearing again and again in what he said – and more importantly – in what he did. His ageless achievement in the face of obscurity, bigotry, indifference, and vengeful stupidity epitomizes our own endless search for happiness – and shows the way to it. • • •

IDEAS ON LIBERTY

## *A Happy Life*

A HAPPY LIFE is to laugh often and to love much, to win the respect of intelligent persons and the affection of children, to earn the approbation of honest critics and to endure the betrayal of friends, to appreciate beauty, to find the best in everything, to give one's self, to leave the world a bit better, whether by a healthy child, a garden patch, or a redeemed social condition, to have played and laughed with enthusiasm and to have sung with exaltation, to know even one life has breathed easier because you have lived.

RALPH WALDO EMERSON

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**To bring out the best in others —**

# DO IT YOURSELF

KING VIDOR

*"The world is a looking glass and gives back to every man the reflection of his own face."*
WILLIAM MAKEPEACE THACKERAY

I HAD TO LIVE a long time before I found the courage to admit to myself that we — all of us — make our own world. The realization came to me in a very simple way. Though I am a Californian, I make frequent trips to New York and I had decided that all New York cab drivers were impatient, bad-tempered, or hated their jobs. And hotel employees and railroad personnel were the same. I found them all difficult to get along with.

Then one day in New York I came upon the words from Thackeray quoted above. The very same day when a "cabbie" and I were snarling at one another, this thought occurred to me — "Could this whole situation be the result of my own thinking and outlook?"

I began to live Thackeray's idea and soon it became a part of me. The result: on my next trip East, I encountered not one unpleasant taxi driver, elevator operator, or employee! Had New York changed or had I? The answer was clear.

To abandon excuses for one's own shortcomings is like journeying to a distant land where everything is new and strange. Here you can't continue to blame someone or something else for failures or difficulties; you have to assume the responsibility for them yourself. Of course, outside pressures do influence our lives, but they don't control them. To assume they do is sheer evasion — it's so easy to say, "It's not my fault!"

Since that day in New York I've come to believe that this idea is the basis of all human relationships. It doesn't matter whether it is your neighbors, your mother-in-law, or the people of a foreign nation. The quickest way to correct the other fellow's attitude is to correct your own.

Try it. It works. And it adds immeasurably to the fun of meeting people and being alive. • • •

*Mr. Vidor is a motion picture director and producer. This article is reprinted by permission from This Week Magazine. Copyright 1958 by the United Newspapers Magazine Corporation.*

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# PAPA KNOWS BEST

TO CLEAR THE GROUND, let us say at once that Professor John Kenneth Galbraith's *The Affluent Society* (Houghton Mifflin, 368 pp. $5.00) is the most readable book on economics that has appeared in years. It is also the most quotable. The author has a genius for paradox and for aphorism. His mordant and ironic phrases are as telling as those of Thorstein Veblen, and he has what Veblen never did have, the ability to write a shapely sentence and a winged paragraph.

As a technical economist, Galbraith is also quite capable. With all his gifts he should be able to do something supremely worth-while. The curious thing, however, is that he lets his skills spin off into social essays that betray an essential disrespect for individual human beings as such. Professing to care for humane goals, he sees people only in the mass. To Galbraith, it is the "countervailing power" of such large and amorphous entities as the "farm bloc" or the big industrial union or the National Association of Manufacturers or the ADA or the "consumers," which counts. It is never Joe or Jim, and it is never you and me.

*The Affluent Society* begins with some sharp analysis of the world of yesterday when economics was truly a study of the utilization of scarce means. With one eye on the agricultural surplus, and the other eye on the wonders that can be done with distribution once mass production rips merrily on past the "break-even point" on the forecaster's graph, Professor Galbraith rightly argues that our "private economy" has killed the poverty-ridden world of Ricardo and Malthus. (Galbraith is, of course, speaking of the United States, not the immense poorhouse of a totalitarian China or of an India in which cows are more sacred than human beings.) The poor we still have with us, but they exist in pockets (as in the uplands of the Ozarks) or in big cities on a "case" basis. Instead of praising what the private economy has done to raise



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living standards, however, Professor Galbraith proceeds to spray it with a withering irony.

### *Arousing Our Wants*

Galbraith begins by turning the concept of marginal utility against itself. The truth is, he says, that people have been so gorged with the cream of affluence that they have ceased to have any truly spontaneous marginal desires. Not only must our manufacturers produce the goods, they must also whip up the desire for the goods. As Galbraith puts it, consumer demand must be synthesized by Madison Avenue. And a huge debt-creating machine must stand ready to prod, poke, and cajole people into buying the cars, the deepfreezes, the sports jackets, and the hamburger meat which they do not really want.

Since, in Galbraith's opinion, people are so satiated with the goods which they don't really desire, the prime need of our society must lie elsewhere. What we should have, says Galbraith, is better "social balance." To Galbraith's way of thinking, social balance would consist of taking money away from Detroit and Madison Avenue and plowing it into new schools, new roads, better medicine, more efficient police protection, more public parks and bathing beaches, and a far more generous system of unemployment insurance and old age pensions.

There is just enough truth in Galbraith's picture of what American people have chosen to do with their riches to make his quest of "social balance" seem plausible. But Galbraith is not willing to limit himself to the role of being a critic of taste. Instead of pointing out to people that they might better put their money into education on a private basis that would permit free choice of teachers or into utility cars with a low gas consumption rate and a short wheel base or into voluntary medical cooperatives, all of which would permit an individual the mature exercise of his own will, Galbraith falls back into a Papa Knows Best attitude. To protect people against Madison Avenue, he would send the tax collector around to relieve them of a good part of their income.

### *Caring for the Inmates*

Personally, I find this superior, top-down attitude offensive. It is an echo of Thurman Arnold's old theory that the government should treat people as the superintendent of an insane asylum treats his charges, as wards to be watched over and provided for. The aim of an insane asylum, so Thurman Arnold used to say, is to make its inmates as safe and as comfortable

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as possible. To government officials, Arnold said: "Go thou and do likewise." Even granting for the sake of the argument that a lot of people do have defective tastes, I would still take violent issue with the Arnold-Galbraith theory that men in political office have a sounder appreciation of values than the rest of us. Indeed, since men in public office make a profession of living on other people's money, they are apt to include a higher percentage of irresponsibles than is to be found in most other professional groups. Moreover, they bend to mass pressure – and on Galbraith's own theory, this means that their stock-in-trade is catering to the more vociferous inmates of the universal insane asylum.

I vividly recall a conversation with Ken Galbraith when we were fellow editors of *Fortune Magazine*. "You and John Davenport," said Galbraith, "are Puritans in your attitude toward economics. As for me, I am a Rumanian." By this he meant that he didn't care a fig for neatness and consistency in drawing a sharp line between public and private sectors of the economy.

The truth is, however, that Galbraith is far more Puritanical in his attitude than are any of the partisans of voluntarism in economics. He believes in an economic theocracy, with the God-elected "planner" telling the rest of us what values we should honor. Instead of letting each and every individual human soul do battle as a free agent with the hosts of Lucifer (conveniently symbolized in *The Affluent Society* by Madison Avenue), Galbraith would coerce us all to Goodness. And it would be a Goodness in his own image. Not even John Calvin could have held to a doctrine of the Elect that is any more strict than this.

### *An Ingenious Sales Tax*

To pay for social balance, as interpreted by a "planning" state hierarchy in the name of 51 per cent of the population, Galbraith would levy sales taxes on an ingenious basis. He would tax soap and detergents, for example, to pay the bills incurred by the Department of Sanitation. He would tax television sets and cigarettes to pay for schools. Thus our indulgences and our vices, as defined by Galbraith, would finance our virtues.

Professor Galbraith's tax scheme is a clever adaptation of Mandeville's *Fable of the Bees*, that early satire which drew attention to the fact that the manufacture of luxuries provided an income – and many necessities – for the workers who catered to the vices of the rich. Well, if we must be taxed,

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Galbraith's scheme is as good as any other. Since all taxes come out of production, however, it is the general level of taxation, not its method of collection, that is the more important problem. Galbraith may differ with most of his so-called "liberal" friends on the merits of the sales tax. But he is at one with his statist colleagues in his insistence that the tax-take remain at an extremely high level.

### *Victims of Overproduction*

As for Galbraith's basic theory that we are the victims of too much production, it is, again, a Papa Knows Best theory. To anyone who does a little soul-searching, the theory must seem glitteringly superficial. For myself, I would reject it utterly. With 95,000 miles on a 1954 Chevrolet and 32,000 miles on a Volkswagen, I do not need Madison Avenue to inform me that I could use a new car. (Incidentally, with three girls of driving age and a home that is two miles from the nearest bus line, I could use *two* new cars). But with my own "social balance" to pay for (two daughters in college, and two boys at the summer camp age), not all the blandishments of Madison Avenue can sell me anything that is superfluous. When Uncle Sam puts in for his share of my income, I resent every penny that he takes for such items of questionable "social balance" as sending money to Santo Domingo or financing Nehru's experiments in Indian socialism. Far from swimming in plenty and having no "marginal utility" problems, I know what I need without ever reading an advertisement.

Nor is this personal with me. As I look about, I see practically everybody else in the same predicament.

Galbraith's book, then, is built on an entirely defective foundation. It is clever, brilliant in its phrasing, an object lesson to all economists who try to write for the general public. But it contains the subtle poison that will someday drug us into reconstituting society in the image of a public institution, with only the "planning" officials exercising the power of choice. If enough people listen to Galbraith, the "underlying population," to use Veblen's old phrase, will simply be on the receiving end of whatever the government wants to dispense in the name of "social balance." And the "social balance" will be maladministered, at that.

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### A Ride to Panmunjom

*By Duane Thorin.* Chicago: Henry Regnery Co., 1956. 303 pp. $4.00.

As this novel opens, twelve American prisoners of war are jogging along in a Chinese truck over the roads of North Korea on their way to Panmunjom – and to release. One of them had willingly collaborated with the communists. Another had capitulated when it seemed to his personal advantage. Another, a high ranking officer, after some pressure, had confessed to "germ warfare." Several had resisted considerable mental and even physical torture; and these are the author's heroes.

All twelve men stand out as individuals, some weak, some strong, some peculiar, some almost untouched by their experience as prisoners. The novel's author, Duane Thorin, a Chief Petty Officer in the Navy, knows personally from experience as a war prisoner in Korea, what these men went through. He describes clearly the mental and emotional attitude of each, the moments when their fates hung in the balance, the reasons why some gave in, why others withstood the test and resisted pressure to the end. Detailed descriptions of the tactics used by the communists and of the ways in which these twelve reacted, disclose the source of each man's strength or weakness. Those who were strong, even under most adverse conditions, had somehow acquired a sound moral and religious philosophy. Those who failed to stand up to the communists lacked faith, convictions, or beliefs to live by.

It is this novel's thesis that the inner strength men need develops over years of living. It cannot merely be applied from outside like veneer. Proper training and indoctrination help, so that young men who have not previously had guidance, experience, and education may learn a great deal after induction in the services. To aid in this task Duane Thorin is now in Washington with the armed services. Let us hope he does not become so engrossed in this job, working through and with the force of government, that he forgets the true source of real strength and courage – freedom. When individuals seek to reach their goals and must constantly adjust to unexpected changes, when they suffer from their own mistakes and strive to make their own solutions, when their success or failure is their own responsibility and reward, the inner spark, the faith, the strength which Thorin prizes, are encouraged. For these incentives and for the need to struggle and to solve one's problems, there is no substitute.

BETTINA BIEN

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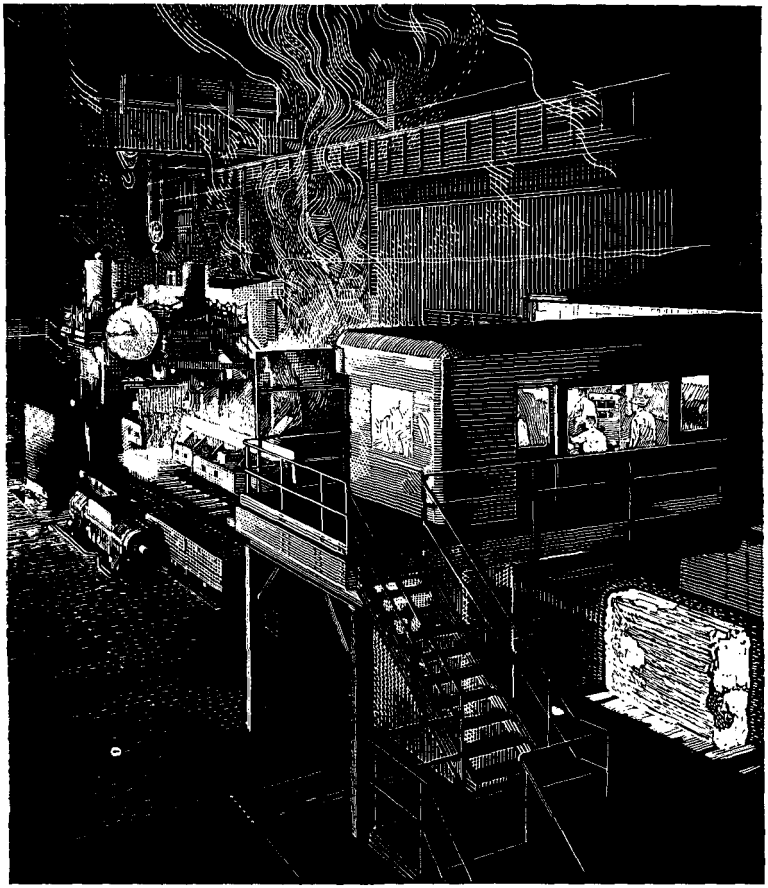

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THE AVERAGE PERSONAL INCOME in the United States was about $4,600 in 1955. Of this amount, something like 85 per cent, or $3,910, appears to have been pay for work done currently. The remaining 15 per cent, or about $690, was pay to savers who were providing the tools of production in one form or another. Were the entire pie to go to wage earners and others as pay for current work — as advocated by Karl Marx — wages could go up from 85 to 100, or about one-sixth. . . .

Since 1917, wage rates have risen with increased productivity at about 2.5 per cent a year. Thus in six years' time this rise in wages would equal the 15 per cent increase possible from getting all the remainder of the pie. Or to put it another way, productivity increases during the past working generation have raised wages perhaps six times as much as could possibly come from diverting to wages every cent of current returns for savings.

*A selection from* Why Wages Rise *by F. A. Harper. The Foundation for Economic Education. Irvington-on-Hudson, N. Y. 124 pp. $1.50 paper, $2.50 cloth.*

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